

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

**MUNICIPIO DE GURABO
AUDITORÍA 2012-2013
30 DE JUNIO DE 2013**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

TABLE OF CONTENTS

	<u>Pages</u>
PART I - FINANCIAL SECTION	
Independent Auditors' Report.....	1-3
Management's Discussion and Analysis	4-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities.....	11
Fund Financial Statements-Governmental Funds	
Balance Sheet	12-13
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	16
Notes to Basic Financial Statements	17-45

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

TABLE OF CONTENTS (CONTINUED)

	<u>Pages</u>
PART II – REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	47
Note to Budgetary Comparison Schedule – General Fund	48
PART III - SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	50
Notes to Schedule of Expenditures of Federal Awards	51
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	52-53
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by with OMB Circular A-133.....	54-57
Schedule of Findings and Questioned Costs	58-62
Schedule of Status of Prior Year Audit Findings and Questioned Costs	63-64

PART I – FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Gurabo, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4 to 8 and 46 to 47, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2014, on our consideration of the Municipality of Gurabo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide and opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Municipality of Gurabo's internal control over financial reporting and compliance.

San Juan, Puerto Rico
March 12, 2014

The stamp E96460 of the Puerto Rico Society of Certified Public Accountants 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, 2013**. 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 position amounting to **\$75,319,532** and **\$5,419,826** respectively, in the accompanying statement of net position, of which the most significant assets are capital assets amounting to **\$53,683,808 (71 percent of total Municipality's assets)**.
- The Municipality in the same activities has reported total liabilities amounting to **\$69,899,706** in the accompanying statement of net position, of which the most significant liabilities are bonds, notes and other long-term debt amounting to **\$49,108,467 (70 percent of total liabilities)**.
- The Municipality has reported total revenues amounting to **\$25,764,432** in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Gubernamental Funds, for the Fiscal Year Ended **June 30, 2013**. The most significant revenues amounting in this statement are property taxes and municipal licenses taxes and, sales and use tax and licenses and permits were to **\$12,041,860 (47 percent of total revenues)**.
- The Municipality has reported a net change in net position of revenues over expenditures amounting to **(\$8,936,944)** in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances of **\$5,959,813** which represent the fund balances of the general fund, other governmental funds and debt service fund combined (all known as the Municipality's major funds).
- The Municipality has reported a deficit for the general fund amounting to **(\$5,777,821)**.
- The Municipality has reported a deficiency of revenues and other financing sources over expenditures and other financing uses amounting to **(\$15,009,919)** in the governmental funds. Such amount correspond to General Fund, debt service and capital projects fund.

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, 2013** even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net position and (2) the statement of activities.

Statement of Net Position

The statement of net position presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net position" (**equity**). Over time, increases or decreases in the net position 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 position changed during the fiscal year ended **June 30, 2013**. All changes in net position 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)** permanent improvement fund and **(4)** capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year (**June 30, 2013**). 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)** permanent improvement fund and **(4)** other governmental fund.

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 position may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by **\$5,419,826** at **June 30, 2013**.

As previously discussed, by far the largest portion of the Municipality's net position 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. Otherwise, Municipality's Basic Financial Statement, not present increase in capital actives and accrued depreciation expenses, because al the time prepare the financial statement, Municipal Administrative was reevaluating actives files to stablish of capitalization. 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 Position:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Current assets	\$ 28,337,650	\$ 21,635,724
Capital assets	<u>50,496,783</u>	<u>53,683,808</u>
Total assets	<u>\$ 78,834,433</u>	<u>\$ 75,319,532</u>
Current liabilities	\$ 18,606,995	\$ 20,791,239
Non-current liabilities	<u>45,870,668</u>	<u>49,108,467</u>
Total liabilities	<u>\$ 64,477,663</u>	<u>\$ 69,899,706</u>
Net position/(liabilities):		
Invested in capital assets, net of related debt	\$ 17,674,738	\$ 12,398,463
Restricted	24,785,048	15,204,148
Unrestricted	<u>(28,103,016)</u>	<u>(22,182,785)</u>
Total net position	<u>\$ 14,356,770</u>	<u>\$ 5,419,826</u>

An additional portion of the Municipality's net position (**1 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 position.

Condensed Statement of Activities:

	<u>June 30, 2012</u>	<u>June 30, 2013</u> <u>(as restated)</u>
Revenues:		
Program revenues:		
Charges for services	\$ 720,671	\$ 816,987
Operating grants and contributions	1,377,134	2,011,424
Capital grants and contributions	2,373,128	1,710,685

General revenues:

Property taxes	4,337,595	9,080,197
Municipal license taxes	3,484,280	2,612,124
Sales and use taxes	2,945,728	2,696,531
Grants and contributions	11,731,207	5,368,077
Interest, fines and penalties	742,871	838,066
Miscellaneous	<u>556,312</u>	<u>663,816</u>
Total revenues	<u>28,268,926</u>	<u>25,797,907</u>

Expenses:

General government	\$ 11,440,235	\$ 15,075,343
Public safety	1,746,210	1,356,285
Public works	10,289,880	2,379,666
Recreation	1,526,987	1,291,799
Health and welfare	3,232,739	2,203,841
Economic development	338,057	11,178,195
Interest on long-term debt	<u>2,426,920</u>	<u>1,249,722</u>
Total expenses	<u>31,001,028</u>	<u>34,734,851</u>
Change in net position	(2,732,102)	(8,936,944)
Net position – at beginning of year	<u>17,088,872</u>	<u>14,356,770</u>
Net position – at end of year	<u>\$ 14,356,770</u>	<u>\$ 5,419,826</u>

Fund Financial Statements Summary

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

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

Condensed Balance Sheet – Governmental funds:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Total Assets – Major Funds	\$ 32,293,556	\$ 26,035,413
Total Assets – Nonmajor Funds	<u>683,024</u>	<u>495,451</u>
Total assets	<u>\$ 32,976,580</u>	<u>\$ 26,530,864</u>
Total Liabilities – Major Funds	\$ 17,292,585	\$ 19,771,505
Total Liabilities – Nonmajor Funds	<u>709,203</u>	<u>799,546</u>
Total liabilities	<u>\$ 18,001,798</u>	<u>\$ 20,571,051</u>
Fund Balances – Major Funds	\$ 15,000,971	\$ 6,263,908
Fund Balances – Nonmajor Funds	<u>(26,189)</u>	<u>(304,095)</u>
Total Fund Balance	<u>\$ 14,974,782</u>	<u>\$ 5,959,813</u>

Condensed Statement of Operations – Governmental funds:

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Total Revenues – Major Funds	\$ 26,286,398	\$ 24,037,068
Total Revenues – Nonmajor Funds	<u>1,982,528</u>	<u>1,727,364</u>
Total revenues	<u>28,268,926</u>	<u>25,764,432</u>

Total expenditures – Major Funds	30,684,176	38,769,081
Total expenditures – Nonmajor Funds	<u>1,473,489</u>	<u>2,005,270</u>
Total expenditures	<u>32,157,665</u>	<u>40,774,351</u>
Excess (deficiency) of revenues over (under) expenditures	(3,888,739)	(15,009,919)
Other financing sources (uses) Major	7,030,000	5,994,950
Expenses over revenues – Major	3,141,261	(9,014,969)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (NOTE 22)	<u>11,833,521</u>	<u>14,974,782</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ 14,974,782</u>	<u>\$ 5,969,813</u>

Capital Assets and Debt Administration

a) Capital Assets

The Municipality has invested **\$53,683,808** in capital assets used in governmental activities, which have an accumulated depreciation and amortization of **\$1,655,392** at June 30, 2012. The net capital assets increased during the current fiscal year due to the current fiscal year capital additions **\$5,248,800** which were partially offset by the depreciation and amortization expense.

b) Debt Administration

The Municipality finances a significant portion of its construction activities through bond and note issuances, and through state and federal grants. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

At June 30, 2013, the Municipality's total bonded debt amounted to **\$47,976,520** consisting of bonds (**\$43,445,345**) and notes (**\$4,531,175**) payables. Such debt is backed by the full faith and credit of the Municipality.

Financial Contact

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

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

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 5,072,308
Cash with fiscal agent (Note 2)	13,351,021
Accounts receivable:	
Property taxes	107,608
Municipal license taxes (Note 6)	230,019
Rent, licenses, and permits	182,212
Sales taxes	85,816
Due from other agencies (Note 8)	2,606,740
Capital assets, net (Note 10)	<u>53,683,808</u>
 Total assets	 <u><u>\$ 75,319,532</u></u>
Liabilities and Net Assets	
Liabilities	
Account payable and accrued liabilities	\$ 8,989,676
Due to other agencies (Note 11)	2,766,520
Deferred revenues:	
Municipal license taxes (Note 12)	2,033,109
Federal government	29,821
Matured bonds payable	1,347,000
Matured interest payable	509,785
Noncurrent liabilities (Note 14):	
Due within one year	2,693,000
Due in more than one year	49,108,467
Accrued interest payable	<u>2,422,328</u>
Total liabilities	<u>69,899,706</u>
Net Position	
Investment in capital assets, net of related debt	12,398,463
Restricted for:	
Debt service	5,468,577
Capital projects	9,735,571
Unrestricted	<u>(22,182,785)</u>
 Total net position	 <u><u>\$ 5,419,826</u></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, 2013

Assets	General	Housing and Urban Development Programs	Sales and Uses Taxes	Debt Service	State Legislative Joint Resolutions	Loans and Bonds	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents (Note 2)	\$ 66,873	\$ 422,439	\$ 10,709	\$ -	\$ 2,539	\$ 4,426,257	\$ 143,491	\$ 5,072,308
Cash with fiscal agent (Note 2)	186,177			7,217,754	3,447	5,934,685	8,958	13,351,021
Accounts receivable:								
Property taxes				107,608				107,608
Municipal license taxes (Note 6)	230,019							230,019
Rent, licenses, and permits	182,212							182,212
Sales taxes			85,816					85,816
Due from other agencies (Note 8)	2,606,740							2,606,740
Due from other funds (Note 9)	2,002,484		80,000		2,469,654		343,002	4,895,140
Total assets	<u>\$ 5,274,505</u>	<u>\$ 422,439</u>	<u>\$ 176,525</u>	<u>\$ 7,325,362</u>	<u>\$ 2,475,640</u>	<u>\$ 10,360,942</u>	<u>\$ 495,451</u>	<u>\$ 26,530,864</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
BALANCE SHEET-GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2013

Liabilities and Fund Balance (Deficit)	General	Housing and Urban Development Programs	Sales and Use Taxes	Debt Service	State Legislative Joint Resolutions	Loans and Bonds	Other Governmental Funds	Total Governmental Funds
Liabilities								
Account payable and accrued liabilities	\$ 3,359,951	\$ 114,755	\$ 3,638,200	\$ -	\$ 142,993	\$ 1,719,884	\$ 13,893	\$ 8,989,676
Due to other agencies (Note 11)	2,766,520							2,766,520
General obligations:								
Bonds				1,347,000				1,347,000
Interest				509,785				509,785
Due to other funds (Note 9)	2,892,746	282,702				934,039	785,653	4,895,140
Deferred revenues municipal								
Municipal license taxes (Note 12)	2,033,109							2,033,109
Federal government		29,821						29,821
Total liabilities	<u>11,052,326</u>	<u>427,278</u>	<u>3,638,200</u>	<u>1,856,785</u>	<u>142,993</u>	<u>2,653,923</u>	<u>799,546</u>	<u>20,571,051</u>
Commitments and Contingencies (Notes 20 and 21)								
Fund Balances (Deficit) (Note 15)								
Restricted		318,179		5,468,577	2,332,647	7,707,019	366,103	16,192,525
Assigned	1,543,453							1,543,453
Unassigned	<u>(7,321,274)</u>	<u>(323,018)</u>	<u>(3,461,675)</u>				<u>(670,198)</u>	<u>(11,776,165)</u>
Total fund balances (deficit)	<u>(5,777,821)</u>	<u>(4,839)</u>	<u>(3,461,675)</u>	<u>5,468,577</u>	<u>2,332,647</u>	<u>7,707,019</u>	<u>(304,095)</u>	<u>5,959,813</u>
Total liabilities and fund balances (deficit)	<u>\$ 5,274,505</u>	<u>\$ 422,439</u>	<u>\$ 176,525</u>	<u>\$ 7,325,362</u>	<u>\$ 2,475,640</u>	<u>\$ 10,360,942</u>	<u>\$ 495,451</u>	<u>\$ 26,530,864</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 THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total fund balances - governmental funds \$ 5,959,813

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 53,683,808
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 3)** (54,223,795)

Net position of governmental activities \$ 5,419,826

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

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

	General	Housing and Urban Development Programs	Sales and Use Taxes	Debt Service	Joint Resolutions	Loan and Bonds	Other Governmental Funds	Total Governmental Funds
REVENUES								
Property taxes (Note 5)	\$ 6,083,843	-	\$ -	\$ 2,996,354	-	\$ -	\$ -	\$ 9,080,197
Municipal license taxes (Note 6)	2,696,531	-	-	676,784	-	-	-	2,696,531
Sales and uses taxes (Note 7)	649,362	-	1,935,340	-	-	160,250	-	2,612,124
Licenses and permits	7,375	-	-	-	-	-	-	649,362
Charges for service and rents	-	-	-	-	-	-	-	167,625
Intergovernmental revenues (Note 13):								
Federal grants and contributions	5,067,880	2,011,425	-	6,561	300,197	-	1,710,684	3,722,109
State contributions	798,030	-	-	-	-	-	-	5,368,077
Interest, fines, and penalties	647,136	-	-	-	-	-	-	804,591
Other revenues	15,950,157	2,011,425	1,935,340	3,679,699	300,197	160,250	16,680	663,816
Total revenues								25,764,432
EXPENDITURES								
Current:								
General government	14,302,514	-	-	-	-	66,950	-	14,369,464
Public safety	1,246,013	-	-	-	-	-	-	1,246,013
Public works	1,703,656	1,083,812	-	-	-	-	-	2,787,468
Recreation	474,280	-	-	-	-	-	-	474,280
Health and welfare	453,790	926,679	-	-	355,081	6,060,361	614,215	1,994,684
Economic development	260,429	-	2,160,000	-	-	5,248,800	1,391,055	10,226,926
Capital outlays	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement	-	-	-	2,556,000	-	-	-	2,556,000
Interest and other	-	-	-	1,870,716	-	-	-	1,870,716
Total expenditures	18,440,682	2,010,491	2,160,000	4,426,716	355,081	11,376,111	2,005,270	40,774,351
Excess (deficiency) of revenues over (under) expenditures	(2,490,525)	934	(224,660)	(747,017)	(54,884)	(11,215,861)	(277,906)	(15,009,919)
OTHER FINANCING SOURCES (USES)								
Proceeds of refunded bonds	-	-	-	-	-	12,523,475	-	12,523,475
Bond issuance	810,000	-	2,620,000	13,718,218	-	5,151,475	-	5,961,475
Transfers in	2,267,270	-	(1,876,638)	(390,632)	-	(14,930,000)	-	18,605,488
Transfers out	(1,408,218)	-	-	(12,490,000)	-	-	-	(18,605,488)
Payments to refunded bonds	1,669,052	-	743,362	837,586	-	2,744,950	-	(12,490,000)
Total other financing sources (uses)	(821,473)	934	518,702	90,569	(54,884)	(8,470,911)	(277,906)	5,994,950
Net change in fund balances	(4,956,348)	(5,773)	(3,980,377)	5,378,008	2,387,531	16,177,930	(26,189)	(9,014,969)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (Note 23)	\$ (5,777,821)	\$ (4,839)	\$ (3,461,675)	\$ 5,468,577	\$ 2,332,647	\$ 7,707,019	\$ (304,095)	\$ 5,959,813
FUND BALANCE (DEFICIT) AT END OF YEAR								

Handwritten signature and date:
 O. J. Lopez
 26/07/2014

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

**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, 2013**

Net change in fund balances - total governmental funds \$ (9,014,969)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 5,248,800
- 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. (2,061,775)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (5,961,475)
- 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. 2,556,000
- Change in accrued interest expense which does not require the use of current financial resources. 620,994
- 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. (324,519)

Changes in net position of governmental activities \$ (8,936,944)

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, 2013**

1. ORGANIZATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The following is a summary of the more significant policies.

a. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that

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

organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on the Municipality.

- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2013.

b. Government-Wide and Governmental Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the activities of the Municipality. For the most part, the effect of the interfund activity has been removed from these statements.

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

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

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

Separate fund financial statements are provided for governmental funds. Mayor governmental funds are reported on separate columns to segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

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

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

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current

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

period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) 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

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

encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income families.

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.

d. Cash and Cash Equivalents and Cash with Fiscal Agent

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of 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). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

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

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.

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

e. Interfund Receivables and Payables

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

f. Capital Assets

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

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

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

g. Fund Balances

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

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to

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

which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2013.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54.

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

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 (CRIM) for the year ended June 30, 2013 amounted to approximately \$346,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$384,000 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 expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

j. Future Adoption of Accounting Pronouncements

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

Statement Number	Statement Name	Adoption Required in Fiscal Year
65	Items Previously Reported as Assets and Liabilities	2013-14

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

Statement Number	Statement Name	Adoption Required in Fiscal Year
66	Technical Corrections - 2012- an amendment of GASB Statements No. 10 and 62	2013-14
67	Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25	2013-14
68	Accounting and Financial Reporting for Pensions - and amendment of GASB Statement No. 27	2014-15
69	Government Combinations and Disposals of Government Operations	2013-14
70	Accounting for Financial Reporting for Non-exchange Financial Guarantees	2013-14
71	Pension Transition for Contribution made Subsequent to the Measurement Date	2014-15

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

k. Deferred Inflows

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

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

- Potential revenue does not meet both the “measurable” and “available criteria for revenue recognition in the current period (reported as “*earned but unavailable revenue*” in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at

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

June 30, 2013 and collected within 90 days (60 days of property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.

- The Municipality receives resources before it has a legal claim to them (reported as *“unearned revenue”* in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred inflows is removed and revenue is recognized.

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

I. Use of Estimates

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

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the

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

current period and therefore are not reported in the funds. The details of the approximately \$ 54.2 million difference is as follows:

Bonds payable	\$ 43,445,345
Notes payable	4,531,175
Compensated absences	2,846,641
Interest payable	2,422,328
Due to Puerto Rico Health Insurance Administration	895,624
Claims and judgments	<u>82,682</u>
Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	<u>\$ 54,223,795</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 \$4.4 million in the governmental activities were fully collateralized at June 30, 2014. The deposits at GDB of approximately \$6.7 million that are restricted principally for capital projects and the \$6.5 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks

The Municipality maintains its deposits in three (3) 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

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

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 11.83% for real property and 7.83% 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	5.00%	3.00%
Discounts made by state to tax payer	< .20% >	< .20% >
	<u>11.83%</u>	<u>7.83%</u>

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

The "additional special property tax – municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality. The "additional special property tax – state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

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

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

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 2012-13, 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, 2013, the amount collected from taxpayers and charges by CRIM exceeded the amount received in advances from CRIM, for the same period by approximately \$.5 million. Such amount is presented as due from CRIM in the accompanying financial statements. (See Note 8)

6. MUNICIPAL LICENSE TAXES

Municipal license taxes are recorded in the fiscal year in which payment is due and, accordingly, represents taxes which are due and uncollected at June 30, 2013. The annual municipal license taxes are 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.

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

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 million, corresponding to the next fiscal year municipal license.

7. SALES AND USE TAXES

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

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

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

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

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$ 2,153,979
Municipal Revenues Collection Center (General Fund)	<u>452,761</u>
Total	<u>\$ 2,606,740</u>

9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2013, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Joint Resolutions	General Fund	\$ 2,469,654
General Fund	Loans and Bonds Fund	934,039
General Fund	Other Governmental Funds	785,653
Sales and Use Tax Fund	General Fund	80,000
General Fund	HUD Programs	282,702
Other Governmental Funds	General Fund	<u>343,092</u>
		<u>\$ 4,895,140</u>

The balance of \$2,469,654 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.

The balance of \$934,039 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, and the \$785,653 due from other governmental funds to the general fund mainly represents disbursements to cover payroll of various federal programs.

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

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, 2013 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$ 390,632
Sales and Usage Taxes	General	1,876,638
Sales and Usage Taxes	Loan and Bonds Fund	2,440,000
Sales and Usage Taxes	General	180,000
Debt Service	Loan and Bonds Fund	<u>13,718,218</u>
Total		<u>\$18,605,488</u>

The transfer from the general fund to the debt service fund of \$390,632 represents monies transferred to cover debt service payments as become due.

The transfer of \$13.7 million from the loan and bond funds to the debt service fund represents the payment of refunded bonds.

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

10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 12,823,258	\$ 4,099,000	\$ -	\$ 16,922,258
Construction in process	1,161,013	-	-	1,161,013
Total capital assets, not being depreciated	<u>13,984,271</u>	<u>4,099,000</u>	<u>-</u>	<u>18,083,271</u>
Capital assets, being depreciated:				
Buildings and building improvements	36,864,838	180,000		37,044,838
Furniture, fixtures, and equipment	3,931,971	545,972		4,477,943
Vehicles	7,527,150	412,191		7,939,341
Infrastructure	11,071,631	11,637		11,083,268
Total capital assets, being depreciated	<u>59,395,590</u>	<u>1,149,800</u>	<u>-</u>	<u>60,545,390</u>
Less accumulated depreciation for:				
Buildings and building improvements	8,352,502	1,024,890		9,377,392
Furniture, fixtures, and equipment	3,497,522	326,785		3,824,307
Vehicles	6,781,226	427,362		7,208,588
Infrastructure	4,251,828	282,738		4,534,566
Total accumulated depreciation	<u>22,883,078</u>	<u>2,061,775</u>	<u>-</u>	<u>24,944,853</u>
Total capital assets, being depreciated, net	<u>36,512,512</u>	<u>(911,975)</u>	<u>-</u>	<u>35,600,537</u>
Governmental activities capital assets, net	<u>\$ 50,496,783</u>	<u>\$ 3,187,025</u>	<u>\$ -</u>	<u>\$ 53,683,808</u>

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

Recreation	\$ 817,519
Public works	676,010
General government	381,360
Public safety	110,272
Economic development	24,590
Health and welfare	52,024
Total depreciation expense – governmental activities	<u>\$ 2,061,775</u>

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

11. DUE TO OTHER AGENCIES

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

Puerto Rico Electric Power Authority	\$ 2,153,978
Puerto Rico Water and Sewer Authority	69,124
Puerto Rico Labor Department	99,259
Retirement System Administration	417,507
General Services Administration	11,882
Puerto Rico Treasury Department	<u>14,770</u>
 Total	 <u>\$ 2,766,520</u>

12. DEFERRED REVENUES

Municipal License Taxes

The deferred revenues of approximately \$2 million in the general fund related to municipal license tax collected in fiscal year 2012-13 that will be earned in fiscal year 2013-14.

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, 2013 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%.	\$ 85,000
\$1,967,000 series of 1994, payable in annual installments of \$88,000 to \$159,000 until 2015 with interest at 6%.	308,000

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

\$325,000 series of 1997, payable in annual installments of \$11,000 to \$44,000 until 2015 with interest at 5%.	\$ 140,000
\$704,000 series of 2000, payable in annual installments of \$20,000 to \$47,045 until 2024 with interest at 4.5%.	415,045
\$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%.	480,000
\$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%.	2,015,000
\$375,000 series of 2002, payable in annual installments of \$12,000 to \$29,000 until 2027 with interest at 4.50%.	295,000
\$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%.	6,615,000
\$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%.	915,000
\$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%.	195,000
\$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%.	700,000
\$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%.	6,655,000

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

\$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%.	\$ 1,075,000
\$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%	255,000
\$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%	2,140,000
\$7,030,000 series of 2012, payable in annual installments of \$83,000 to \$570,000 until 2036 with interest ranging from 6.0% to 7.0%.	6,800,000
\$1,630,000 series of 2013, payable in annual installments of \$42,000 to \$285,000 until 2019 with interest ranging from 6.0% to 7.5%.	1,445,000
\$810,000 series of 2013, payable in annual installments of \$10,000 to \$140,000 until 2019 with interest ranging from 6.0% to 7.0%.	715,000
\$1,835,325 series of 2013, payables in annual installments of \$13,000 to \$170,000 until 2035 with interest ranging from 5.38% to 6.0%.	1,805,325
\$7,308,975 series of 2013, payable in annual installments of \$50,000 to \$629,000 until 2035 with interest ranging from 5.38% to 6.0%.	7,173,975
\$3,488,000 series of 2013, payable in annual installments of \$94,000 to \$433,000 until 2022 with interest of 5.375%.	<u>3,218,000</u>
Total bonds	<u>\$ 43,445,345</u>

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

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%.	\$ 144,000
\$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%.	678,000
\$450,000 note payable, series of 2012, payable in annual installments of \$15,000 to \$45,000 until 2025, with interest ranging from 6.0% to 7.0%.	395,000
\$3,379,175 note payable, series of 2013, payable in annual installments of \$23,000 to \$289,000 until 2035, with interest ranging from 5.38% to 6.0%.	<u>3,314,175</u>
Total notes payable	<u>\$ 4,531,175</u>

The annual requirements for the amortization of general long-terms at June 30, 2013, are as follows:

	<u>Bonds Payable</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	2,363,000	2,165,611	205,000	256,717
2015	2,523,000	2,602,504	257,000	265,435
2016	2,484,000	2,520,826	292,000	249,690
2017	1,842,000	2,438,886	332,000	231,845
2018	1,961,000	2,319,000	125,000	211,600
2019-2023	9,447,000	9,323,754	759,000	929,550
2024-2028	9,736,045	6,765,178	894,000	665,900
2029-2033	9,985,000	3,008,897	1,118,000	375,750
2034-2035	3,104,300	362,114	549,175	50,300
	<u>\$ 43,445,345</u>	<u>\$ 31,506,770</u>	<u>\$ 4,531,175</u>	<u>\$ 3,236,787</u>

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

As described in Note 5, the Municipality levies an annual special tax of 5.0% 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	\$ 39,852,045	\$ 5,952,300	\$ 2,359,000	\$ 43,445,345	\$ 2,363,000
Notes payable	4,719,000	9,175	197,000	4,531,175	205,000
Total long-term debts	<u>44,571,045</u>	<u>5,961,475</u>	<u>2,556,000</u>	<u>47,976,520</u>	<u>2,568,000</u>
Other Long-Term Liabilities:					
Due to Puerto Rico Health Insurance Administration	594,321	301,303	-	895,624	-
Claims and judgments	82,682			82,682	-
Compensated absences	<u>2,823,425</u>	<u>23,216</u>	-	<u>2,846,641</u>	<u>125,000</u>
Total other liabilities	<u>3,500,428</u>	<u>324,519</u>	-	<u>3,824,947</u>	<u>125,000</u>
Total noncurrent liabilities	<u>\$ 48,071,473</u>	<u>\$ 6,285,994</u>	<u>\$ 2,556,000</u>	<u>\$ 51,801,467</u>	<u>\$ 2,693,000</u>

15. FUND BALANCES

As of June 30, 2013, fund balances are comprised of the following:

	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Sales and Use Taxes Fund</u>	<u>Debt Service</u>	<u>State Legislative Joint Resolutions</u>	<u>Loans and Bonds</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted:								
Health and welfare	\$ -	\$ 318,179	\$ -	\$ -	\$ -	\$ -	\$ 366,103	\$ 684,282
Capital projects					2,332,647	7,707,019		10,039,666
Debt service				5,468,577				5,468,577
Assigned:								
General government	1,543,453							1,543,453
Unassigned	<u>(7,321,274)</u>	<u>(323,018)</u>	<u>(3,461,675)</u>				<u>(670,198)</u>	<u>(11,776,165)</u>
	<u>\$ (5,777,821)</u>	<u>\$ (4,839)</u>	<u>\$ (3,461,675)</u>	<u>\$ 5,468,577</u>	<u>\$ 2,332,647</u>	<u>\$ 7,707,019</u>	<u>\$ (304,095)</u>	<u>\$ 5,959,813</u>

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

16. FUND BALANCE DEFICIT

The following funds had a deficit in fund balance at June 30, 2013:

Fund	Deficit
General	\$ 5,777,821
Sales and use tax	3,461,675
Housing and Urban Development	4,839
Other governmental funds	<u>304,095</u>
 Total	 <u>\$ 9,548,430</u>

The deficit of the general fund will be covered by future budgetary appropriations. The deficit of other governmental funds will be eliminated by grant proceeds in fiscal year 2014.

17. NET POSITION

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

Capital assets, net of accumulated depreciation.	\$ 53,683,808
Outstanding balance on capital related debt	<u>41,285,345</u>
 Total invested in capital assets, net of related debt	 <u>\$ 12,398,463</u>

18. RETIREMENT PLAN

a. Plan Description

The Employees 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, 2013**

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

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads of Agencies and Public Instrumentalities, 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.

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

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

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 (10.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 11.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2013 was approximately \$258,000. The Municipality's payroll for employees covered by ERS was approximately \$3.9 million. The Municipality total payroll for all employees was approximately \$8.4 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2013, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

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

19. 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.

20. 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.

21. COMMITMENTS

The Municipality of Gurabo had several outstanding or planned construction projects as of June 30, 2013. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the joint resolutions fund and loans and bonds fund that amounted to approximately \$10 million.

22. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through March 12, 2014, the date the financial statements were available to be issued.

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

23. RESTATEMENTS

The beginning balance of general fund and State Legislative Joint Resolution fund has been restated to correct over/under statement of due to/from.

	<u>General</u>	<u>State Legislative Joint Resolution</u>
Fund balance at beginning of year previously reported	\$ (5,797,927)	\$ 3,229,110
Over/under statement due to/from	<u>841,579</u>	<u>(841,579)</u>
Fund balance at beginning of year, as restated	<u>\$ (4,956,348)</u>	<u>\$ 2,387,531</u>

PART II – REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GURABO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Positive</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note 1)</u>	<u>(Negative)</u>
REVENUES				
Property taxes	\$ 649,026	\$ 649,026	\$ 649,026	\$ -
Municipal license taxes	5,200,000	5,200,000	2,846,214	(2,353,786)
Licences and permits	4,135,000	4,135,000	642,910	(3,492,090)
Charges for services and rent	75,000	75,000	24,931	(50,069)
Intergovernmental revenues:	-	-	-	-
State contributions	9,714,182	9,714,182	10,049,936	335,754
Interest, fines, and penalties	456,000	456,000	798,030	342,030
Other revenues	800,000	800,000	1,788,402	988,402
Total revenues	<u>21,029,208</u>	<u>21,029,208</u>	<u>16,799,449</u>	<u>(4,229,759)</u>
EXPENDITURES				
General government	13,731,574	15,268,512	14,135,816	1,132,696
Public safety	1,884,629	1,295,765	1,271,445	24,320
Public works	3,091,280	2,328,616	2,231,496	97,120
Recreation	536,508	520,243	502,195	18,048
Health and welfare	1,490,517	1,305,380	1,297,850	7,530
Economic development	294,700	310,692	286,226	24,466
Total expenditures	<u>21,029,208</u>	<u>21,029,208</u>	<u>19,725,028</u>	<u>1,304,180</u>
Excess of expenditures over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,925,579)</u>	<u>\$ (2,925,579)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 16,799,449
Differences - budget to GAAP:				
Net change in receivables				(568,442)
Non-budgeted revenues				<u>(280,850)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 15,950,157</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule				\$ 19,725,028
Differences - budget to GAAP:				
Non-budgeted fund				355,040
Prior year encumbrances recorded as current year expenditures for GAAP basis				605,148
Net changes in payables				(701,081)
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(1,543,453)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 18,440,682</u>

The accompanying note to budgetary comparison schedule is 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, 2013**

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, 2013 representing the original budget.

PART III – SINGLE AUDIT SECTION

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying 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		\$ 1,022,681
Pass-through Department of Family Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257		13,575
Emergency Shelter Grant Program	14.231		47,556
Pass-through Commissioner Office of Municipal Affairs State Block Grant Program - SBGP	14.228		926,679
Subtotal U.S. Department of HUD			<u>2,010,491</u>
U.S. Department of Agriculture			
Pass-through Puerto Rico Department of Education Child and Adult Care Food Program	10.558		52,702
Subtotal U.S. Department of Agriculture			<u>52,702</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		427,693
Child Care and Development Block Grant- ARRA	93.713		3,711
Pass-through Oficina de la Procuradora de las Personas de Edad Avanzada: Special Programs for the Aging - Title III, Part C - Nutrition	93.045		130,109
Subtotal U.S. Department of HHS			<u>561,513</u>
U.S. Department of Transportation			
Direct Program:			
Federal Transit-Formula Grants	20.507		369,517
Subtotal U.S. Department of Transportation			<u>369,517</u>
U.S. Department of Homeland Security			
Pass-through the Governor's Authorized Representative Disaster Grants - Public Assistance	97.036		1,021,538
Subtotal U.S. Department of Homeland Security			<u>1,021,538</u>
TOTAL			<u>\$ 4,015,761</u>

See notes to Schedule of Expenditures of Federal Awards.

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

1. SIGNIFICANT ACCOUNTING POLICIES

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

2. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

Expenditures as per basic financial statements:	
Housing and Urban Development programs fund	\$ 2,010,491
Federal expenditures included within the other nonmajor governmental funds	<u>2,005,270</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$ 4,015,761</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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Gurabo, as of and for the year ended June 30, 2013, and the related notes to the financial statements of the governmental activities, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated March 12, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items **13-A** and **13-B**.

Compliance and Other Matters

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questions costs as **13-A** and **13-B**.

Municipality of Gurabo's Response to Findings

Municipality's response to findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

San Juan, Puerto Rico
March 12, 2014

The stamp E96461 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



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

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

Report on Compliance for Each Major Federal Program

We have audited Municipality of Gurabo's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2013. Municipality 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.

Management's Responsibility

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

Auditors' Responsibility

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

Basis for Qualified Opinion on Disaster Grants - Public Assistance (Presidentially Declared Disasters)

As described in the accompanying schedule of findings and questioned costs, Municipality of Gurabo did not comply with requirements regarding CFDA 97.036 Disaster Grants-Public Assistance (Presidentially Declared Disasters) as described in finding number 13-01 for Activities Allowed or Unallowed, Allowable Costs/Costs Principles. Compliance with such procedures is necessary, in our opinion, for Municipality of Gurabo, to comply with the requirement applicable to that program.

Qualified Opinion on Disaster Grants - Public Assistance (Presidentially Declared Disasters)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Municipality of Gurabo, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Disaster Grants- Public Assistance (Presidentially Declared Disasters) for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Municipality of Gurabo complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **13-01**. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **13-1** to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified.

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

San Juan, Puerto Rico
March 12, 2014

Ortiz, Rivera, Rivera & Co.

The stamp E96462 of the Puerto Rico Society of Certified Public Accountants 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, 2013**

1. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued:	<u>Unmodified opinion</u>	
Internal control over financial reporting:		
Material weakness (es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency (ies) identified?	<u> X </u> Yes	<u> </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:		
Material weakness (es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiency (ies) identified?	<u> </u> Yes	<u> X </u> No

Type of auditors' report issued on compliance for major programs:

CFDA 14.228 Community Development Block Grant/States Program	Unqualified
CFDA 20.507 Federal Transit-Formula Grants	Unqualified
CFDA 93.713 Child Care and Development Block Grant ARRA	Unqualified
CFDA 93.575 Child Care and Development Block Grant	Unqualified
CFDA 97.036 Disaster Grants- Public Assistance (Presidentially Declared Disasters)	Qualified

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

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133?

X Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
14.228	Community Development Block Grant/States Program
20.507	Federal Transit-Formula Grants
93.713	Child Care and Development Block Grant- ARRA
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Audited Qualified as low-risk auditee? Yes X No

2. FINDINGS – FINANCIAL STATEMENTS AUDIT

- **13-A – General Fund Deficit**

Condition

As of June 31, 2013, the Municipality closed with an accumulated deficit of \$5,777,821, third consecutive year that the Municipality closed its operations reporting a deficit.

Criteria

Article 7.011(a) of Autonomous Municipal Act (Law 81 of August 30, 1991), as amended, establishes that municipalities with deficits at their closing dates must provide for sufficient resources during the next fiscal year period in order to cover such deficit.

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

Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that special care must be provided for the estimation of future revenues in order to avoid budget appropriations in excess of available resources.

Cause

The deficit is caused by the overestimation of budgeted revenues and by the incurrence of obligations without the proper consideration of current and future available resources. The Mayor and the Finance Director did not follow adequate budgeting procedures.

Recommendation

The continuing deficit reported by the Municipality may harm the basic governmental services provided to its citizens. We strongly recommend that the necessary measures are taken in order to stop this trend. The Municipality must work on increasing actual revenues and/or substantially reducing expenditures.

• **13-B – Estimated Revenues Shortfall**

Condition

As of June 30, 2013, the Municipality did not meet certain projected revenues by significant amounts, causing an increase in its General Fund deficit (see Finding 13-A). The following deficiencies were noted based on our comparison of budgeted revenues versus final operating results:

- For licenses and permits, the Municipality failed to meet its expectations by \$3,492,090, an 85% budget shortfall.
- For municipal license taxes, the Municipality failed to meet its expectations by \$2,353,786, a 83% budget shortfall.

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

Criteria

Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that special care must be provided for the estimation of future revenues in order to avoid budget appropriations in excess of available resources.

Cause

The Mayor and the Finance Director did not follow adequate budgeting procedures for establishing reasonable estimates.

Recommendation

The Municipality should revise and amend the budget as current information related to collections of budgeted revenues became available.

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

a. Disaster Grants- Public Assistance (Presidentially Declared Disasters)

• **Condition 13-1 – Allowable Costs / Cost Principle**

We observed that the general fund of the Municipality owe \$325,000 for loans made during fiscal year 2012-2013.

Criteria

Based on 24 CFR Section 570-207, ineligible activities, expenses to carry out regular responsibilities of the unit of general local government are not eligible for assistance under this part.

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

Cause

The Municipality's need for additional funds for immediate obligations of the general fund, resulted in the Municipality unawareness of federal restrictions with federal funds.

Effect

The Municipality is not in compliance with federal funds regulations.

Recommendation

The Municipality should reimburse the amount due and avoid this procedure immediately.

Questioned Costs

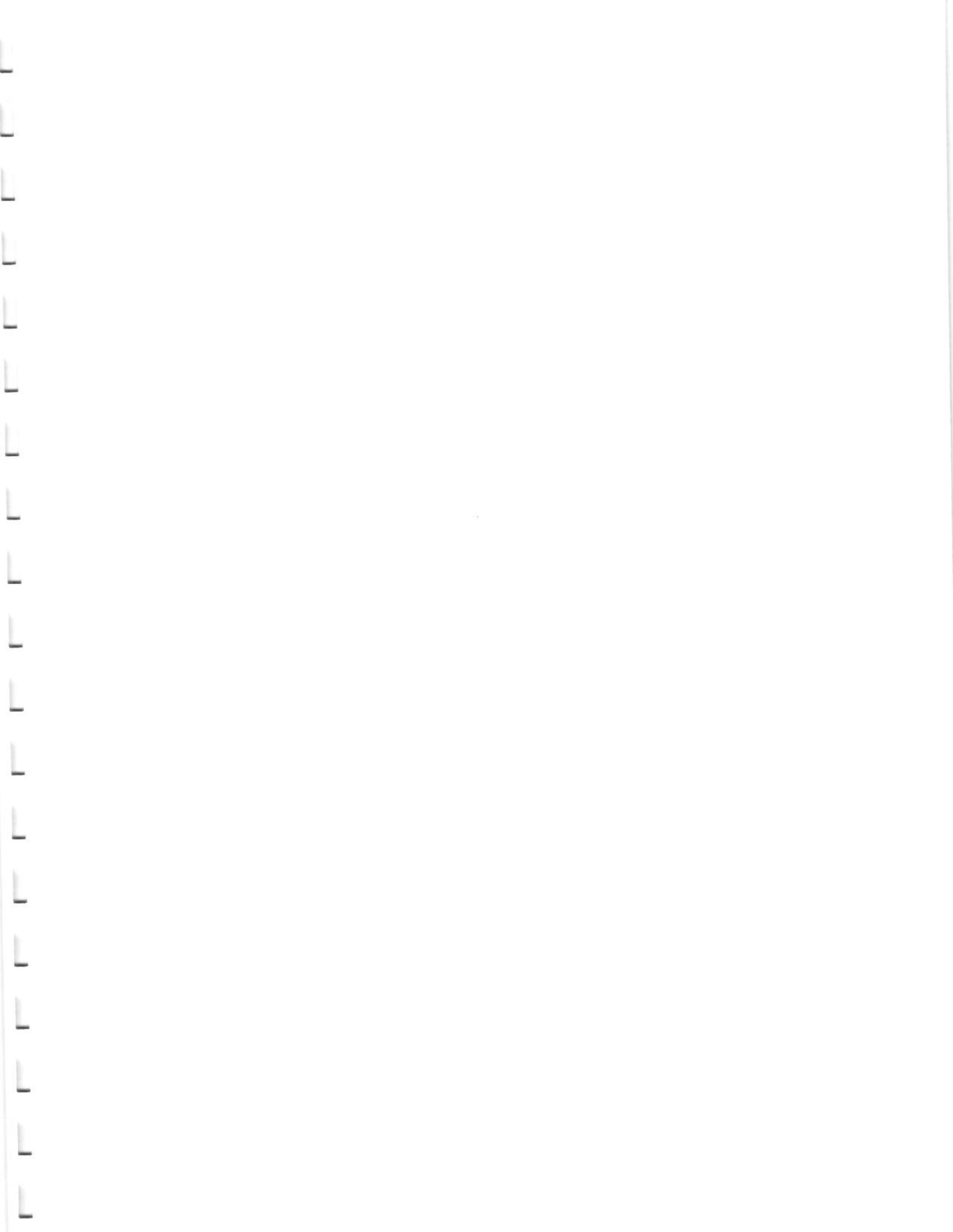
\$325,000

**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, 2013**

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

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
State Block Grant Program CFDA No. 14.228	Condition 11-1 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.	Condition still prevails.





CORRECTIVE ACTION PLAN

March 12, 2014

Cognizant or Oversight Agency for Audit

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

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

Audit Period: Fiscal year ended June 30, 2013

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

FINDINGS – FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOMELAND SECURITY

Finding 13-1: Disaster Grants- Public Assistance (Presidentially Declared Disasters) - CFDA 97.036

Reportable Condition: See Condition 13-1

Recommendation

The Municipality should reimburse the amount due and avoid this procedures immediately.

Action Taken

The amount due will be reimbursed by the General Fund to the Federal Program bank account as soon as possible.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Hector Caraballo, for Disaster Grants- Public Assistance (Presidentially Declared Disasters), at (787) 712-1100.

Cordially,

Héctor R. Caraballo Díaz
Finance Director

