

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

**MUNICIPIO DE GURABO  
AUDITORÍA 2013-2014  
30 DE JUNIO DE 2014**

OCAM GENERALISTAS  
DIA: SERVICIOS GENERALISTAS  
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2014**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
SINGLE AUDIT REPORTING PACKAGE  
FOR THE YEAR ENDED JUNE 30, 2014

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TABLE OF CONTENTS

**FINANCIAL SECTION**

Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-11
Basic Financial Statements:	
Governmental-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balance	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Notes to the Financial Statements	18-34
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	35
Schedule of Budgetary Comparison	36
Notes to Schedule of Budgetary Comparison	37-38
Schedule of Expenditures of Federal Awards	39-40
Notes to Schedule of Expenditure of Federal Awards	41
<b>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</b>	42-44
<b>Independent Auditors' report on Compliance for Each Major Program and on Internal Control over Compliance required by Circular-A-133</b>	45-47
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	48
Section I. - Summary of Auditor's Results	49
Section II. - Financial Statements Findings	50
Section III. - Federal Awards Findings and Questioned Costs	51

15-03-0224

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**



# CARLOS R. DIAZ, CPA, PSC

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Municipal Legislative Body  
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 **Municipality of Gurabo**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the **Municipality of Gurabo** 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.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Gurabo**, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 to 11 and 36-38 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 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.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED):**

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2015, on our consideration of the **Municipality of Gurabo** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Gurabo** internal control over financial reporting and compliance.

March 12, 2015  
Aguas Buenas, Puerto Rico

  
Carlos R. Díaz, CPA, PSC  
License No. 275  
Expire December 1, 2015

The stamp No. **E107103** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO PUERTO RICO  
MANAGEMENTS DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014**. 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 has reported assets and net assets amounting to **\$78,203,747** and **\$13,090,489** respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to **\$58,285,762 (74 percent of total Municipality’s assets)**.
- The Municipality has reported total liabilities amounting to **\$63,221,815** in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to **\$45,309,559 (71 percent of total liabilities)**.
- The Municipality has reported total revenues amounting to **\$28,120,275** in the accompanying Statement of activities, for the Fiscal Year Ended **June 30, 2014**. The most significant revenues amounting in this statement are property taxes and municipal licenses taxes and, sales and use tax and construction excises taxes were to **\$12,914,096 (45 percent of total revenues)** and **\$4,229,244 (15 percent of total revenues)**, respectively.
- The Municipality has reported a net change in net position of amounting to **\$2,701,451** in the accompanying statement of activities.
- The Municipality’s governmental funds reported combined ending fund balances (deficit) of **\$635,831**.
- The Municipality has reported a deficit for the general fund amounting to **\$(7,620,619)**.
- The Municipality has reported an excess of revenues and other financing sources over (under) expenditures and other financing uses amounting to **\$(6,599,504)** in the governmental funds.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO PUERTO RICO  
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**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, 2014 even if cash involved have not been received or paid. The government-wide financial statements include: **(1)** the statements of net assets and **(2)** the statement of activities.

**Statement of Net Assets**

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

**Statement of Activities**

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended **June 30, 2014**. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (**such as uncollected taxes and earned but unused vacation leave**). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

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

**Fund Financial Statements**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO PUERTO RICO  
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

**Statement of Activities (Continued)**

**Fund Financial Statements (Continued)**

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 governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year **(June 30, 2014)**. 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.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO PUERTO RICO  
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

**Government-wide Financial Statements Summary**

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by **\$13,090,489** at **June 30, 2014**.

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

	<u>June 30, 2013</u>	<u>June 30, 2014</u>
Current assets	\$21,635,724	\$ 19,917,985
Capital assets	<u>53,683,808</u>	<u>58,285,762</u>
<b>Total assets</b>	<b><u>75,319,532</u></b>	<b><u>78,203,747</u></b>
Current liabilities	20,791,239	13,434,977
Non-current liabilities	<u>49,108,467</u>	<u>49,786,838</u>
<b>Total liabilities</b>	<b><u>69,899,706</u></b>	<b><u>63,221,815</u></b>
Deferred inflows of resources:		
Deferred municipal taxes	_____	<u>1,891,443</u>
Net assets/(liabilities):		
Invested in capital assets, net of related debt	12,398,463	18,818,409
Restricted	15,204,148	9,184,846
Unrestricted	<u>(22,182,785)</u>	<u>(14,912,766)</u>
<b>Total net assets</b>	<b><u>\$ 5,419,826</u></b>	<b><u>\$ 13,090,489</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO PUERTO RICO  
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

**Government-wide Financial Statements Summary (Continued)**

<u>Condensed Statement of Activities:</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 816,987	\$ 15,249
Operating grants and contributions	2,011,424	3,535,021
Capital grants and contributions	1,710,685	2,206,646
<b>General revenues:</b>		
Property taxes	9,080,197	9,976,137
Municipal license taxes	2,612,124	2,937,959
Sales and use taxes	2,696,531	2,247,591
Construction excise tax	-0-	1,981,653
Grants and contributions	5,368,077	4,729,912
Interest, fines and penalties	838,066	150,950
Miscellaneous	<u>663,816</u>	<u>339,157</u>
<b>Total revenues</b>	<b><u>25,797,907</u></b>	<b><u>28,120,275</u></b>
<b>Expenses:</b>		
General government	15,075,343	15,280,219
Public safety	1,356,285	1,415,888
Public works	2,379,666	2,759,725
Recreation	1,291,799	477,675
Health and welfare	2,203,841	2,583,366
Family and social development	-0-	491,836
Economic development	11,178,195	1,536,190
Interest on long-term debt	<u>1,249,722</u>	<u>873,925</u>
<b>Total expenses</b>	<b><u>34,734,851</u></b>	<b><u>25,418,824</u></b>
<b>Change in net assets</b>	<b>(8,936,944)</b>	<b>2,701,451</b>
<b>Net assets – at beginning of year</b>	<b><u>\$14,356,770</u></b>	<b><u>\$10,389,038</u></b>
<b>Net assets – at end of year</b>	<b><u>\$ 5,419,826</u></b>	<b><u>\$13,090,489</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO PUERTO RICO  
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

**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:**

	<b><u>June 30, 2013</u></b>	<b><u>June 30, 2014</u></b>
Total Assets – Major Funds	\$26,035,413	\$23,379,486
Total Assets – Nonmajor Funds	<u>495,451</u>	<u>1,912,951</u>
<b>Total assets</b>	<b><u>26,530,864</u></b>	<b><u>25,292,437</u></b>
Total Liabilities – Major Funds	19,771,505	18,604,980
Total Liabilities – Nonmajor Funds	<u>799,546</u>	<u>462,633</u>
<b>Total liabilities</b>	<b><u>20,571,051</u></b>	<b><u>19,067,613</u></b>
<b>Deferred inflows of resources</b>	<u>                    </u>	<b><u>6,860,655</u></b>
Fund Balances – Major Funds	6,263,908	9,084,817
Fund Balances – Nonmajor Funds	<u>(304,095)</u>	<u>(9,720,648)</u>
<b>Total Fund Balance</b>	<b><u>\$ 5,959,813</u></b>	<b><u>\$ (635,831)</u></b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO PUERTO RICO  
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

**Fund Financial Statements Summary (Continued)**

**Condensed Statement of Operations – Governmental funds:**

Total Revenues – Major Funds	\$24,037,068	\$25,762,566
Total Revenues – Nonmajor Funds	<u>1,727,364</u>	<u>2,357,709</u>
<b>Total revenues</b>	<b><u>25,764,432</u></b>	<b><u>28,120,275</u></b>
Total expenditures – Major Funds	38,769,081	34,019,634
Total expenditures – Nonmajor Funds	<u>2,005,270</u>	<u>2,375,324</u>
<b>Total expenditures</b>	<b><u>40,774,351</u></b>	<b><u>36,394,958</u></b>
Excess (deficiency) of revenues over (under) expenditures	(15,009,919)	(8,274,683)
Other financing sources (uses) Major Funds	<u>5,994,950</u>	<u>1,679,039</u>
Expenses Over Revenues	<u>(9,014,969)</u>	<u>(6,595,644)</u>
<b>FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (NOTE 11)</b>	<b><u>\$14,974,782</u></b>	<b><u>\$ 5,959,813</u></b>
<b>FUND BALANCE (DEFICIT) AT END OF YEAR</b>	<b><u>\$ 5,969,813</u></b>	<b><u>\$ (635,831)</u></b>

**Capital Assets and Debt Administration**

**a) Capital Assets**

The Municipality has invested **\$58,285,762** in capital assets used in governmental activities, which have an accumulated depreciation and amortization of **\$26,837,578** at June 30, 2014. The net capital assets increased during the current fiscal year due to the current fiscal year capital additions **\$4,601,954**, 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, 2014, the Municipality's total bonded debt amounted to **\$47,152,559**, consisting of bonds and notes payables. Such debt is backed by the full faith and credit of the Municipality.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO PUERTO RICO  
MANAGEMENTS DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

**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 2<sup>nd</sup>. floor of the **Gurabo City Hall, Gurabo, Puerto Rico**.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2014**

	<u><b>PRIMARY GOVERNMENT</b></u>
<b>ASSETS</b>	<b>GOVERNMENTAL ACTIVITIES</b>
Cash in bank	\$ 2,131,451
Cash with fiscal agent	9,823,057
Investment in certificates of deposit	
Accounts receivable:	
Property tax	5,247,182
Sale tax	393,377
Other government	2,322,918
Others	
Restricted cash	
Capital assets, net	<u>58,285,762</u>
<b>Total Assets</b>	<u><b>78,203,747</b></u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	11,190,054
Advances	
Unearned revenue	1,986,248
Due to other agencies	258,675
Long-term debt:	
Due within one year	4,477,279
Due in more than one year	<u>45,309,559</u>
<b>Total Liabilities</b>	<u><b>63,221,815</b></u>
Deferred inflows of resources:	
Deferred municipal taxes	<u>1,891,443</u>
<b>NET POSITION</b>	
Net investment in capital assets	18,818,409
Restricted for:	
Debt service	3,194,142
Capital project	3,890,675
Other purpose	2,100,029
Unrestricted	<u>(14,912,766)</u>
<b>Total Net Position</b>	<u><b>\$ 13,090,489</b></u>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

<u>FUNCTIONS AND PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE)/ REVENUE</u>
		<u>CHARGE FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:					
General administration	\$(15,280,219)				\$(15,280,219)
Public safety	(1,415,888)		\$1,024,307		(391,580)
Education and recreational	(477,675)	\$15,249	262,142		(200,284)
Public works and sanitation	(2,759,725)			\$2,206,646	(553,079)
Health and welfare	(2,583,366)		1,712,833		(870,533)
Family and social development	(491,836)		193,858		(297,978)
Economic development	(1,536,190)		341,881		(1,194,309)
Interest	(873,925)				(873,925)
Total governmental activities	<u>\$(25,418,824)</u>	<u>\$15,249</u>	<u>\$3,535,021</u>	<u>\$2,206,646</u>	<u>(19,661,908)</u>
General revenue:					
Taxes:					
Property taxes					9,976,137
Municipal tax					2,937,959
Sale tax					2,247,591
Construction excise tax					1,981,653
Grants and entitlements					4,729,912
Rent					202,477
Interest					150,950
Other					136,680
Total general revenues					<u>22,363,359</u>
Changes in net position					2,701,451
Net position at beginning					<u>10,389,038</u>
Net position at end					<u>\$ 13,090,489</u>

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2014**

<b>ASSETS</b>							<b>LIABILITIES AND FUND BALANCE</b>	
<b>MAJOR FUNDS</b>							<b>LIABILITIES AND FUND BALANCE</b>	
<b>GENERAL FUND</b>	<b>DEBT SERVICE FUNDS</b>	<b>LOANS AND BONDS FUNDS</b>	<b>STATE LEGISLATURE JOINT RESOLUTION FUNDS</b>	<b>HOUSING AND URBAN DEVELOPMENT PROGRAM</b>	<b>SALES AND USE TAX</b>	<b>OTHER GOVERNMENTAL FUNDS</b>	<b>TOTAL GOVERNMENTAL FUNDS</b>	
Cash:								
Cash in bank	\$ 193,408	\$ 1,263,570	\$ 515	\$355,274	\$ 99,259	\$ 219,425	\$ 2,131,451	
Cash with fiscal agent		4,858,828	3,447		6,157		9,823,057	
<b>Receivables:</b>								
Property taxes	2,867,105						5,247,182	
Sale tax					245,566		393,377	
Due from other governmental agencies	761,545			336,670			2,322,918	
Due from other funds	<u>1,499,374</u>		<u>2,107,709</u>		<u>80,000</u>	<u>1,687,369</u>	<u>5,374,452</u>	
<b>Total Assets</b>	<b>\$5,321,432</b>	<b>\$6,122,398</b>	<b>\$2,111,671</b>	<b>\$691,944</b>	<b>\$ 424,825</b>	<b>\$1,912,951</b>	<b>\$25,292,437</b>	
<b>LIABILITIES AND FUND BALANCE</b>								
<b>Liabilities:</b>								
Accounts payable and accrued expenses	\$ 3,442,633	\$1,719,684		\$117,841	\$ 4,136,244		\$ 9,416,404	
Bonds payable							1,280,000	
Interest payable							751,836	
Due to other fund	3,875,078	783,840		252,901		\$ 462,633	5,374,452	
Due to other government	258,675						258,675	
Unavailable income	<u>761,545</u>						<u>1,986,248</u>	
<b>Total Liabilities</b>	<b>8,337,931</b>	<b>2,503,524</b>		<b>370,742</b>	<b>4,136,244</b>	<b>462,633</b>	<b>19,067,613</b>	
<b>Deferred inflows of resources:</b>								
Deferred property tax	2,712,677						4,969,212	
Deferred municipal tax	<u>1,891,443</u>						<u>1,891,443</u>	
<b>Fund Balance (deficit)</b>	<b>4,604,120</b>						<b>6,860,655</b>	
Assigned								
Restricted for debt service	3,194,142						3,194,142	
Restricted for capital project		3,618,874	\$2,111,671	321,202	(3,711,419)	160,130	5,890,675	
Restricted for other purpose						1,290,188	(2,100,029)	
Unassigned	<u>(7,620,619)</u>		<u>2,111,671</u>	<u>321,202</u>	<u>(3,711,419)</u>	<u>1,450,318</u>	<u>(7,620,619)</u>	
<b>Total Fund Balance (deficit)</b>	<b>(7,620,619)</b>	<b>3,618,874</b>	<b>2,111,671</b>	<b>321,202</b>	<b>(3,711,419)</b>	<b>1,450,318</b>	<b>(635,831)</b>	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 5,321,432</b>	<b>\$6,122,398</b>	<b>\$2,111,671</b>	<b>\$691,944</b>	<b>\$ 424,825</b>	<b>\$1,912,951</b>	<b>\$25,292,437</b>	

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2014**

<b>Fund Balances in Governmental Funds</b>	<b>\$ (635,831)</b>
 <i>Amounts reported for Governmental Activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	58,285,762
Receivables deferred in governmental fund financial statements	4,969,212
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds and notes payable	(45,872,558)
Accrued interest	(1,021,816)
Compensated absences	(1,655,973)
Advances from CRIM	(895,624)
Due to Health Insurance Administration	
Claim and judgment	<u>(82,682)</u>
 <b>Total net position in statement of net position</b>	 <b><u>\$ 13,090,489</u></b>

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>MAJOR FUNDS</u>							
	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUNDS</u>	<u>LOANS AND BONDS</u>	<u>STATE LEGISLATURE JOINT RESOLUTION FUNDS</u>	<u>HOUSING AND URBAN DEVELOPMENT PROGRAM</u>	<u>SALES AND USE TAX</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>Revenues:</b>								
Taxes:								
Property taxes	\$ 5,890,465	\$4,085,672						\$ 9,976,137
Municipal tax	2,937,959	630,684				\$1,616,907		2,937,959
Sales tax								2,247,591
Construction excise taxes	1,981,653				\$3,399,110		\$2,357,709	1,981,653
Grants and entitlements	4,714,663		\$ 143,754	\$ 98				10,471,579
Rental income	22,445	5,573						166,199
Interest	196,904		20,469					202,477
Other	116,211							136,680
Total Revenues	<u>15,860,300</u>	<u>4,721,929</u>	<u>164,223</u>	<u>98</u>	<u>3,399,110</u>	<u>1,616,907</u>	<u>2,357,709</u>	<u>28,120,275</u>
<b>Expenditures:</b>								
General administration	14,869,458							14,869,458
Public safety	993,331						389,038	1,382,369
Education and recreational	433,628						32,770	466,398
Public works and sanitation	1,887,234		4,185,284	221,074	1,776,459		965,868	9,035,919
Health and welfare	807,653				1,296,610		468,127	2,572,390
Family and social development	480,224							480,224
Economic development	246,510					764,733	519,521	1,530,764
Debt service:								
Principal	1,500,000	2,218,000	65,000					3,783,000
Interest		<u>1,840,244</u>	<u>434,192</u>					<u>2,274,436</u>
Total expenditures	<u>\$21,218,038</u>	<u>\$4,058,244</u>	<u>\$4,684,476</u>	<u>\$ 221,074</u>	<u>\$3,073,069</u>	<u>\$ 764,733</u>	<u>2,375,324</u>	<u>\$36,394,958</u>
<b>Excess of Revenue over Expenditures</b>	<u>\$ (5,357,738)</u>	<u>\$ 663,685</u>	<u>\$(4,520,253)</u>	<u>\$ (220,976)</u>	<u>\$ 326,041</u>	<u>\$ 852,174</u>	<u>\$ (17,616)</u>	<u>\$(8,274,683)</u>
<b>Other financing sources (uses):</b>								
Operating transfer in	4,830,819	961,770	586,669					6,402,585
Operating transfer out	(1,043,850)	(3,899,890)	(333,600)			23,327		(6,402,585)
Proceed form loan	1,500,000		179,039			(1,125,245)		1,679,039
Total other financing sources	<u>5,286,969</u>	<u>(2,938,120)</u>	<u>432,108</u>			<u>(1,101,918)</u>		<u>1,679,039</u>
<b>Excess of revenues and other financing sources over (under) expenditures and other financing sources</b>	<u>(70,769)</u>	<u>(2,274,435)</u>	<u>(4,088,145)</u>	<u>(220,976)</u>	<u>326,041</u>	<u>(249,744)</u>	<u>(17,616)</u>	<u>(6,595,644)</u>
<b>Fund balance beginning of year, as restated</b>	<u>(7,549,850)</u>	<u>5,468,577</u>	<u>7,707,019</u>	<u>2,332,647</u>	<u>(4,839)</u>	<u>(3,461,675)</u>	<u>1,467,934</u>	<u>5,959,813</u>
<b>Fund balance at end of year</b>	<u>\$(7,620,619)</u>	<u>\$ 3,194,142</u>	<u>\$ 3,618,874</u>	<u>\$2,111,671</u>	<u>\$ 321,202</u>	<u>\$(3,711,419)</u>	<u>\$1,450,318</u>	<u>\$(635,831)</u>



The accompanying notes are an integral part of these 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 YEAR ENDED JUNE 30, 2014**

**Net change in fund balances – total governmental funds** \$(6,599,504)

*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 and changes in net position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 6,494,679

Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (1,892,725)

Governmental funds report principal payments on long-term debt as expenditures, whereas the principal payments reduce the long-term debt in the statement of net position. 3,783,000

Governmental fund report proceed from loans as other financial sources, whereas the proceed from loan increase the long term debt in the statement of net position. (1,679,039)

Changes in accrued expenses which do not require the use of current financial resources:

Interest	1,400,512
Compensating absences	<u>1,190,668</u>

***Changes in Net Position of Governmental Activities*** **\$ 2,697,591**

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**1. ORGANIZATION AND REPORTING ENTITY**

**ORGANIZATION:**

The Municipality of Gurabo (the Municipality) was established in 1826. The Municipality is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the government of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Legislative Body, which has fourteen members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

**Reporting entity**

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Gurabo, this includes various services including police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality Legislative Body through the budgetary process.

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant policies of the Municipality are described below.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government wide and 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 primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Debt Service Fund

This fund is used to account for the accumulation of resources from addition property tax and sales and use tax for and the payment of, general long-term debt principal, interest and related cost.

**Measurement focus, basis of accounting**

The **government-wide Statement of Net Position and the Statement of Activities**, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The governmental fund financial statements are presented 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. Under this method revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days (except property taxes that are 60 days) of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

**Cash, cash equivalents, cash with fiscal agent and investment**

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash with fiscal agent in the governmental fund consists of unused proceeds from 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.

**Interfund receivables and payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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). Interfunds receivables and payables within the governmental activities are eliminated in the statement of net position.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements. The Municipality elected not to capitalize infrastructure acquired before the implementation date of GASB 34 (June 30, 2003).

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. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

Building	40 years
Equipment	5 years
Infrastructure	40 years
Building improvements	40 years
Furnishing	5 years
Computer	3 years
Vehicles	5 years

The Municipality decides when to capitalize an asset using a capitalization threshold of \$25.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fund balance**

In the prior year, the Authority adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 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 Authority is bound to observe constraints imposed upon the use of resources reported in governmental funds.

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as nonspendable, restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.
- ❖ **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 restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making authority (governing body through resolutions) and can only be changed by similar resolutions, no later than the end of the fiscal year.
- ❖ **Assigned** – Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by an official or body to which the governing body delegates authority in conformity with the by-laws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- ❖ **Unassigned** – Represent the residual classification for the entity'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 purpose for which amounts had been restricted, committed, or assigned.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Risk financing**

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Cost of insurance policies for the year ended June 30, 2014 amounted to \$413,824. The current insurance policies have not been cancelled or terminated. In addition the Municipal Revenue Collection Center (the CRIM) deducted \$283,992 for workers compensation insurance covering all municipal employees.

**Compensated absences**

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed. Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Position.

**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. Actual results could differ from those estimates.

**Deposits and investments**

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.

**Subsequent Events**

Management has evaluated subsequent events through March 10, 2015, the date the financial statements were evaluated to be issued.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**3. PROPERTY TAX**

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on esteemed values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before 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, where by 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 liability to the CRIM is recorded at June 30.

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 exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual rate for fiscal year 2014 is 11.83% for real property and 7.83% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 5% AND 3%, respectively, represent the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth contributes an annual tax rate of 0.2% of the property tax collected and the remaining rate is paid by the taxpayer.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**3. PROPERTY TAX (CONTINUED)**

Total property tax receivable, net of an allowance for uncollectible accounts of \$20,360,558, amounted to \$5,247,182 at June 30, 2014. The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2014:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Gross property taxes receivable	\$14,061,626	\$11,546,114	\$25,607,740
Less allowance for uncollectible accounts	<u>11,194,521</u>	<u>9,166,037</u>	<u>20,360,558</u>
Net property taxes receivable	<u>\$ 2,867,105</u>	<u>\$ 2,380,077</u>	<u>\$ 5,247,182</u>
Deferred (unavailable property) tax revenues in GFFS	<u>\$ 3,712,677</u>	<u>\$ 2,256,535</u>	<u>\$ 4,969,212</u>

**4. VOLUME OF BUSINESS TAX**

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2014, \$1,894,443 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying combined balance sheets and statement of net position.

**5. SALE TAX**

On July 4, 2006, the legislature of the Commonwealth of Puerto Rico approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide for a sale and use tax of 5.5 to be imposed by the Commonwealth Government. Act 117 also authorized each municipality government to impose a municipal sale and use tax of 1.5%. This municipal sale and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sale and use tax.

The 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 program, capital improvements and health and public safety costs. Amount collected by the Commonwealth 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:

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**5. SALE TAX (CONTINUED)**

- 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 paid 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 project; these fund will be distributed based on legislation form the Commonwealth's legislature.

The Municipal Sale Tax is specifically imposed over all sale transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax effective November 1, 2006. Individual, organizations and entities subject to collect the municipal sales and use tax must file a tax return to Municipality. Tax is due each 20<sup>th</sup> day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sale and use tax resources. Resources are recorded in the general fund of the Municipality.

**6. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the Other Governmental Funds.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**7. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

<b>Primary Government</b>	<b>Balance <u>June 30, 2013</u></b>	<b><u>Additions</u></b>	<b><u>Retirements and reclassifications</u></b>	<b>Balance <u>June 30, 2014</u></b>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 16,922,258		\$(3,148,000)	\$ 13,774,258
Construction progress	<u>1,161,013</u>	<u>\$ 3,708,255</u>	<u>3,148,000</u>	<u>8,017,268</u>
Total capital assets not being depreciated	<u>18,083,271</u>	<u>3,708,255</u>	<u>                    </u>	<u>21,791,526</u>
Capital assets being depreciated:				
Buildings and building governments	37,044,838	1,605,329		38,650,167
Furniture texture and equipment	4,477,943	254,448		4,732,391
Infrastructure	11,083,268	926,647		12,009,915
Vehicles	<u>7,939,341</u>	<u>                    </u>	<u>                    </u>	7,939,341
Total capital assets being depreciated	<u>60,545,390</u>	<u>2,786,424</u>	<u>                    </u>	<u>63,331,814</u>
Less accumulated depreciation for:				
Buildings and building improvements	(9,377,392)	(994,705)		(10,372,097)
Furniture texture and equipment	(3,824,307)	(270,622)		(4,094,929)
Infrastructure	(4,534,566)	(298,475)		(4,833,041)
Vehicles	<u>(7,208,588)</u>	<u>(328,923)</u>	<u>                    </u>	<u>(7,537,511)</u>
	<u>(24,944,853)</u>	<u>(1,892,725)</u>	<u>                    </u>	<u>(26,837,578)</u>
Total depreciable capital assets, net	<u>35,600,537</u>	<u>893,699</u>	<u>                    </u>	<u>36,494,236</u>
Governmental activities capital assets net	<u>\$ 53,683,808</u>	<u>\$ 4,601,954</u>	<u>\$</u>	<u>\$ 58,285,762</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**7. CAPITAL ASSETS (CONTINUED)**

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

	<b>Governmental Activities</b>
General administration	\$ 994,274
Public safety	87,918
Public works	573,076
Education, culture and recreation	29,580
Health and welfare	111,923
Family and social development	30,457
Economic development	<u>65,497</u>
Total depreciation expense	<u>\$1,892,725</u>

**8. LONG-TERM DEBT**

Long-term liability activity for the year ended June 30, 2014 was as follows:

<b>Primary government: Governmental Activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within one year</b>
Bonds and notes payable	\$49,323,520	\$179,039	\$(2,350,000)	\$47,152,559	\$1,833,000
Compensated absences	2,846,641		(1,190,668)	1,655,973	1,665,973
Claims and judgments	<u>82,682</u>			<u>82,682</u>	<u>82,682</u>
	52,252,843	179,039	(3,540,668)	48,891,214	3,581,655
<b>Due to Puerto Rico</b>					
Health Insurance Administration	<u>895,624</u>			<u>895,624</u>	<u>895,624</u>
Total	<u>\$53,148,467</u>	<u>\$179,039</u>	<u>\$(3,540,668)</u>	<u>\$49,786,838</u>	<u>\$4,477,279</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**8. LONG-TERM DEBT (CONTINUED)**

**Governmental activities:**

Bonds and notes payable:

\$615,000 series of 1992, payable in one annual installment of \$44,000 on January 1, 2015 with interest at 5.0%.	\$ 44,000
\$1,967,000 series of 1994, payable in one annual installment of \$159,000 on January 1, 2015 with interest at 6%.	159,000
\$325,000 series of 1997, payable in annual installments of \$18,000 to \$23,000 until January 1, 2020 with interest at 5%.	123,000
\$704 series of 2000, payable in annual installments of \$31,000 to \$47,045 until January 1, 2024 with interest at 4.5%	385,045
\$665,000 series of 2002, payable in annual installments of \$25,000 to \$55,000 until July 1, 2026 with interest ranging from 2.07% to 5.6%.	480,000
\$2,715,000 series of 2002, payable in annual installments of \$90,000 to \$215,000 until July 1, 2027 with interest ranging from 1.53% to 6.5%.	1,925,000
\$375,000 series of 2002, payable in annual installments of \$16,000 to \$29,000 until January 1, 2027 with interest at 4.50%.	279,000
\$7,595,000 series of 2007, payable in annual installments of \$185,000 to \$635,000 until July 1, 2031 with interest ranging from 1.53% to 7.5%.	6,615,000
\$1,010,000 series of 2007, payable in annual installments of \$25,000 to \$85,000 until July 1, 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 July 1, 2032 with interest ranging from 1.53% to 7.5%.	195,000
\$780,000 series of 2008, payable in annual installments of \$20,000 to \$70,000 until July 1, 2032 with interest ranging from 1.53% to 7.5%.	700,000
\$7,470,000 series of 2008, payable in annual installments of \$175,000 to \$615,000 until July 1, 2032 with interest ranging from 1.53% to 7.5%.	6,655,000
\$1,210,000 series of 2008, payable in annual installments of \$20,000 to \$100,000 until July 1, 2032 with interest ranging from 1.53% to 7.5%.	1,075,000

(Continue)

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**8. LONG-TERM DEBT (CONTINUED)**

Bonds and notes payable (Continued):

\$280,000 series of 2008, payable in annual installments of \$5,000 to \$30,000 until July 1, 2033 with interest ranging from 1.53% to 7.5%.	\$ 255,000
\$4,350,000 series of 2010, payable in annual installments of \$660,000 to \$70,000 until July 1, 2016 with interest ranging from 4.75% to 7.5%.	1,480,000
\$7,030,000 series of 2012, payable in annual installments of \$125,000 to \$570,000 until July 1, 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 July 1, 2019 with interest ranging from 6.0% to 7.5%.	1,445,000
\$810,000 series of 2013, payable in annual installments of \$100,000 to \$140,000 until July 1, 2019 with interest ranging from 6.0% to 7.0%.	715,000
\$1,835,325 series of 2013, payable in annual installments of \$35,000 to \$170,325 until July 1, 2035 with interest ranging from 5.38% to 6.0%.	1,805,325
\$7,308,975 series of 2013, payable in annual installments of \$145,000 to \$629,000 until July 1, 2035 with interest ranging from 5.38% to 6.0%.	7,173,975
\$3,488,000 series of 2013, payable in annual installments of \$285,000 to \$433,000 until July 1, 2022 with interest ranging from 5.375%.	3,397,039
\$158,000 note payable, series of 2008, payable in annual installments of \$3,000 to \$13,000 until July 1, 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 \$117,000 to \$217,000 until July 1, 2017, with interest ranging from 1.53% to 7.5%.	678,000
\$450,000 note payable, series of 2012, payable in annual installments of \$20,000 to \$45,000 until July 1, 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 \$65,000 to \$289,000 until July 1, 2035, with interest ranging from 5.38% to 6.0%.	<u>3,314,175</u>
	<u>\$47,152,559</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**8. LONG-TERM DEBT (CONTINUED)**

**Advances from CRIM**

These amounts represent the balance owed to CRIM at June 30, 2014 as described in Note 3 and is payable in semiannual aggregated installments through July 2032 including interest at 6.1%.

The annual debt service requirements to maturity long-term debt as of June 30, 2014 are as follows:

**Governmental-Type Activities**

<u>Bonds and Notes Payable</u> <u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Aggregated payments</u>
2015	\$ 1,833,000	\$ 1,773,000	\$ 3,606,000
2016	2,581,000	1,796,691	4,377,691
2017	2,779,000	1,705,920	4,484,920
2018	2,178,000	1,614,348	3,792,348
2019	2,088,000	1,523,319	3,611,319
2020-2024	10,378,084	6,314,484	16,692,568
2025-2029	10,559,000	4,441,925	15,000,925
2030-2034	11,103,000	2,333,661	13,436,661
2035-2038	<u>3,653,475</u>	<u>311,267</u>	<u>3,964,742</u>
	<u>\$47,152,559</u>	<u>\$21,814,615</u>	<u>\$68,967,174</u>

**9. EMPLOYEE'S RETIREMENT PLAN**

The Employee's Retirement System of the Government of the Commonwealth Puerto Rico (ERS) is the administrator of a cost-sharing multiple-employer pension plan administered by the Puerto Rico Government Employee and Judiciary Retirement System Administration. The ERS was created by the Act 447, approved on May 15, 1951, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentality and of municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentality, Assistants of the Governor, the Comptroller of the 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.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**9. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately \$22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken. Future employer contributions have been pledged for the payment of debt service, consequently further depletion of ERS's assets could result in the inability to pay benefits.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in \$120.0 million annually, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. And appropriation for such additional contribution of approximately \$120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately \$90 million of this amount will not be collected as expected during fiscal year 2014. Further, this additional contribution was reduced to \$28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

To address these issues, the ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that, in addition to other measures, annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate the ERS investment portfolio. Accordingly, on July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**9. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

Furthermore, on April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1 2013 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
2. Increased the minimum pension for current retirees from \$400 to \$500 per month.
3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
4. The retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.
5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
6. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
8. The employee contribution rate was increased from 8.275% to 10%.
9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.
11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
12. Survivor benefits were modified.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

**9. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

The employees and employer contribution to the above mentioned plans during the year ended June 30, 2013 amounted to \$353,715 and \$414,430, respectively. This amounts represented the required contribution for the corresponding year.

The P.R. Retirement Plan Administration issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

**10. CONTINGENCIES**

As of June 30, 2014, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

**11. Restatements**

The fund balance and net position as presented on prior year has been restated for correction of errors as follows:

	<u>Statement of net position</u>	<u>General Fund</u>	<u>Other Governmental Fund</u>
Amount as priority report	\$ 5,419,826	\$(5,777,821)	\$ (304,095)
Understatement of property tax receivable	4,969,212		
Overstatement (of due to/from other funds	<u>                    </u>	<u>(1,772,029)</u>	<u>1,772,029</u>
	<u>\$10,389,038</u>	<u>\$(7,549,850)</u>	<u>\$1,467,934</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
SCHEDULE OF BUDGETARY COMPARISON  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>GENERAL FUND</u>			VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL AT BUDGETARY BASIS</u>	
<b>Revenues:</b>				
Taxes:				
Property taxes	\$ 5,736,036	\$ 5,736,036	\$ 5,736,036	
Municipal tax	8,641,073	8,641,073	3,167,978	\$(5,473,095)
Construction excise taxes	2,500,000	2,500,000	1,981,653	(518,347)
Grants and entitlements	4,681,722	4,681,722	4,615,983	(65,739)
Rental income	40,000	40,000	22,445	(17,555)
Interest	601,000	601,000	196,112	(404,888)
Other	<u>553,000</u>	<u>553,000</u>	<u>3,358,933</u>	<u>2,805,933</u>
Total revenues	<u>22,752,831</u>	<u>22,752,831</u>	<u>19,079,140</u>	<u>(3,673,691)</u>
<b>Expenditures:</b>				
General administration	16,094,159	17,305,705	14,601,891	2,703,814
Public safety	1,884,644	1,805,911	993,330	812,581
Education, culture and recreational	587,281	587,281	433,628	153,653
Public works and sanitation	3,144,758	2,011,945	1,887,233	124,712
Health and welfare	644,077	644,077	480,224	163,853
Tourism	<u>397,912</u>	<u>397,912</u>	<u>246,510</u>	<u>151,402</u>
Total expenditures	<u>22,752,831</u>	<u>22,752,831</u>	<u>18,642,816</u>	<u>4,110,015</u>
Excess of revenue over expenditure	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 436,324</u>	<u>\$ 436,324</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO SCHEDULE OF BUDGETARY COMPARISON**  
**JUNE 30, 2014**

**1. BUDGETS AND BUDGETARY ACCOUNTING**

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 4) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.
- 5) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO SCHEDULE OF BUDGETARY COMPARISON (CONTINUED)**  
**JUNE 30, 2014**

**2. RECONCILIATION OF GAAP TO BUDGETARY BASIS**

Adjustments necessary to reconcile the revenues and expenditures of the general fund at the end of the year, from the generally accepted accounting principles to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenses</u>
Revenue and expenses for generally accepted accounting principles (GAAP) basis	\$15,860,300	\$21,218,038
Transfer in included as revenues in budgetary basis	4,830,819	
Payment of principal amount not budgetary		(1,500,000)
Other adjustment to adjust revenues and expenses from budgetary basic to modified accrual basis	<u>(1,611,979)</u>	<u>(1,075,222)</u>
Revenue and expenses per budgetary basis	<u>\$19,079,140</u>	<u>\$18,642,816</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014**

	<u>CFDA NUMBER</u>	<u>EXPENDITURES</u>
<b><u>US Department of Housing and Urban Development</u></b>		
Direct programs:		
Section 8- Housing Choice Vouchers	14.871	\$ 991,393
Passed through programs:		
Municipal Service Administration:		
Community Development Block Grant	14.228	1,776,459
PR Department of Family:		
Emergency Shelter Grant Program	14.231	<u>60,738</u>
 Total Department of Housing and Urban Development		 <u>2,828,590</u>
<b><u>US Department of Transportation</u></b>		
Passed through program:		
PR Traffic Safety Commissions:		
Federal Transit – Formula Grants (Urbanized Area Formula Program)	20.507	<u>199,849</u>
<b><u>US Department of Agriculture</u></b>		
Passed through program:		
PR Department of Education:		
Child and Adult Food Program	10.558	<u>27,982</u>
<b><u>US Department of Health and Human Services</u></b>		
Passed through programs:		
Oficina de la Procuradora de las Personas de Edad Avanzada:		
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045	147,727
PR Department of Family:		
Child Care and Development Block Grant	93.575	<u>487,132</u>
 Total Department of Health and Human Services		 <u>634,849</u>
<b><u>US Home Land Security</u></b>		
Passed through program:		
Commonwealth of Puerto Rico Governor’s Authorized Representative:		
Disaster Grants – Public Assistance	97.036	<u>127,240</u>
		 <u>\$3,818,520</u>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF GURABO**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2014**

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Gurabo and is presented on the modify basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments and Non profit organizations.

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



# CARLOS R. DIAZ, CPA, PSC

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

To Honorable Mayor and  
Municipality Legislative Body  
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 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 **Municipality of Gurabo, Puerto Rico**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **Municipality of Gurabo, Puerto Rico's** basic financial statements, and have issued our report thereon dated March 12, 2015.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Municipality of Gurabo, Puerto Rico's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Municipality of Gurabo, Puerto Rico's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Gurabo, Puerto Rico'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 a 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

### Purpose of this Report

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

March 12, 2015  
Aguas Buenas, Puerto Rico



Carlos R. Díaz, CPA, PSC

License No. 275

Expire December 1, 2015

The stamp No. **E107104** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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



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

To Honorable Mayor and  
Municipality Legislative Body  
Municipality of Gurabo  
Gurabo, Puerto Rico

### Report on Compliance for Each Major Federal Program

We have audited **Municipality of Gurabo, Puerto Rico'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 of Gurabo, Puerto Rico's** major federal programs for the year ended June 30, 2014. **Municipality of Gurabo, Puerto Rico'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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of **Municipality of Gurabo, Puerto Rico'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, Puerto Rico'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 of Gurabo, Puerto Rico's** compliance.

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

In our opinion, **Municipality of Gurabo, Puerto Rico** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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

Management of **Municipality of Gurabo, Puerto Rico** 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, Puerto Rico'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 **Municipality of Gurabo, Puerto Rico's** internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Carlos R. Díaz, CPA, PSC

License No. 275

Expire December 1, 2015

March 12, 2015  
Aguas Buenas, Puerto Rico

The stamp No. **E107105** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**MUNICIPALITY OF GURABO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

**Type of auditor's report issued**

**Unqualified**

Internal control over financial reporting:

- Material weakness (es) identified? \_\_\_yes \_X no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? \_\_\_yes \_X no
- Noncompliance material to financial statement noted? \_\_\_yes \_X no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_yes \_X no
- Significant deficiency (ies) identified that are not considered to be material weakness(es) \_\_\_yes \_X no

Type of auditor's report issued on compliance for major programs

**Unqualified**

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

\_\_\_yes \_X no

Identification of major programs:

**CFA Number(s)**

**Name of Federal Program Cluster**

14.228

Community Development Block Grant/  
State's Program

93.575

Child Care Development Block Grant

14.871

Section 8 – Housing Choice Vouchers

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Audit qualified as low-risk audited?

\_\_\_yes \_X no

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

**SECTION II - FINANCIAL STATEMENTS FINDINGS**

NONE

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF GURABO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014**

**SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

NONE