

**Commonwealth of Puerto Rico
Autonomous Municipality of
Guaynabo
Financial Statements
(with additional reports required by
the Government Auditing
Standards and the Uniform
Guidance)
For the Fiscal Year June 30, 2021**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
FOR THE YEAR ENDED JUNE 30, 2021**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
FOR THE YEAR ENDED JUNE 30, 2021**

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FINANCIAL SECTION

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

INDEPENDENT AUDITORS'S REPORT

Report on the Financial Statements -

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining funds information of the Autonomous Municipality of Guaynabo (the Municipality), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements -

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

Auditors' Responsibility -

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality'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 Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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.

INDEPENDENT AUDITORS'S REPORT(CONTINUED)

Summary of Opinions

<u>Fund</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business - Type Activities	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
Workforce Innovation and Opportunity Act Grants Fund	Unmodified
ARPA Funds	Unmodified
Other Governmental Remaining Funds	Unmodified

Basis for Qualified Opinion on Governmental Activities -

GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68" and GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)":

The net pension liability and deferred outflows/inflows of resources in governmental activities of the government-wide statement of net position, and pension expense for the current period charge in that liability in governmental activities of the government-wide statement of activities were derived from the application of the proportional share provided by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) and the Cost-Sharing Multiple-Employer pension plan audited financial information as of June 30, 2019. The ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2021 nor has provided to the Municipality the required information to record transactions related to pension as of and for the fiscal year ended June 30, 2021. The net pension liability and deferred outflows/inflows of resources represent 33% and 2% of the total liabilities and deferred outflows/inflows of resources, respectively, as of June 30, 2021, while pension expense represents 3% of total expenses for the fiscal year then ended. The ERS did not provide the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2021. As a result, management was not able to determine the accurate amount to be reported.

In addition, the ERS has not provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2021, as required by GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (OPEB). The schedules provided to the Municipality covered the measurement period from July 1, 2020 to June 30, 2021. The OPEB represents 1% of the total liabilities of the Municipality while OPEB expense represents 0.3% of the total expenses of the Municipality.

Qualified Opinion on Governmental Activities -

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the *Governmental Activities* of the Autonomous Municipality of Guaynabo, as of June 30, 2021, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS'S REPORT(CONTINUED)

Unmodified Opinions -

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Autonomous Municipality of Guaynabo, as of June 30, 2021, and the respective changes in financial position 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 78 through 81, 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's basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in the pages 82 through 85 is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. It is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

INDEPENDENT AUDITORS'S REPORT(CONTINUED)

Other Information - (Continued)

The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages 87 and 88 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the financial statements. Such 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 June 27, 2022, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Municipality's internal control over financial reporting and compliance.

Subsequent Event -

On December 8, 2021, the Municipality's Major Hon. Ángel Pérez-Otero, was indicted by the United States of America Attorney for Alleged Conspiracy, Federal Funds Bribery and Kickbacks. Due to the indictment, the Major resigned to his charge and a new major was elected. It is the Municipality's management opinion that such alleged events occurred outside the Municipality's premises, and it did not involve any employee of the Municipality that they are aware of.

San Juan, Puerto Rico
June 27, 2022

Stamp No. E497055 was affixed
to the original of this report.

Rodriguez Amador & Co., CPA's, PSC

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

As management of the Municipality of Guaynabo (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

Management's Discussion and Analysis (MD&A) is prepared as a result of the requirement of the financial reporting standards established by Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis for the State and Local Governments*, issued by the Government Accounting Standards Board (commonly known as GASB 34), and it has been designed accordingly with the following goals:

- a) Assist the reader in focusing on significant financial issues.
- b) Provide an overview of the Municipality's financial activity.
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges).
- d) Identify any material deviations from the financial plan (the approved budget).
- e) Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the accompanying basic financial statements.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the Municipality's basic financial statements.

This narrative represents an overview and analysis of the financial statements of the Municipality as of and for the fiscal year ended June 30, 2021. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements. The Municipality's basic financial statements include three (3) components: 1) the government-wide financial statements, 2) funds financial statements - governmental fund financial statements, 3) notes to the financial statements.

This report also contains additional required supplementary information (budgetary schedule) in addition to the basic financial statements themselves. These components are described below.

The financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

FINANCIAL HIGHLIGHTS

- As of June 30, 2021, the Municipality's governmental funds reported combined ending fund balances of approximately \$78.9 million with a increase of \$39.9 million from prior year.
- The Municipality net position increase by \$47.5 million.
- The Municipality most significant assets are capital assets, net of depreciation, amounting to \$1,109,040 (85% percent of total municipality's assets). The capital assets decreased by \$8.4 million and Municipality's net investment in capital assets is \$954,518,552.
- The Municipality must significant liabilities are bonds, notes, and pension liability amounting to \$386,833,329 (81% percent of total municipality's liabilities).
- The Municipality maintains capital leases amounting to \$7,107,751.
- The general fund had revenues of \$129.7 million in 2021. This represents an increase of \$1.6 million from 2020 revenues. The expenditures and other financing uses of the general fund, which totaled \$122 million in 2021, increased \$7.7 million from 2020.

Government-wide Financial Statements

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

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

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

Proprietary Fund Financial Statements

Proprietary funds are used to account for activities that operate more like those of business enterprises. Proprietary fund provides the same type of information as the business-type activity in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There are no reconciling items between government-wide financial statements and the proprietary fund financial statements. The proprietary funds operated by the Municipality are the revenue bond resulting for the operation of the "Los Filtros" Toll System and rent revenue resulting for the operation of the Guaynabo Development - Enterprise Inc.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements.

However, unlike the Government-wide Financial Statements, Government Fund Financial Statements, focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near-term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements begin in page 27 of this report.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrated its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a municipality's financial position. The Municipality's combined net position (excess of assets over liabilities) totaled \$832,742,801 at the end of 2021, compared to \$643,001,668, as restated, at the end of the previous year, resulted in significant increase by \$189.7 million

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

	Governmental Activities			Percentage Change
	2021	2020	Dollar Change	
Current and Other Assets	\$ 188,859,970	\$ 117,354,921	\$ 71,505,049	60.93%
Capital Assets	1,109,040,761	1,117,458,479	(8,417,718)	-0.75%
Total Assets	1,297,900,731	1,234,813,400	63,087,331	5.11%
Deferred Outflows of Resources	7,260,330	52,345,209	(45,084,879)	-86.13%
Current Liabilities	91,335,253	47,181,034	44,154,219	93.58%
Other Liabilities	366,670,177	555,102,359	(188,432,182)	-33.95%
Total Liabilities	458,005,430	602,283,393	(144,277,963)	-23.96%
Deferred Inflows of Resources	16,550,976	41,873,548	(25,322,572)	-60.47%
Net Position:				
Net Investment in Capital Assets	954,518,552	950,839,466	3,679,086	0.39%
Restricted	25,398,112	21,296,879	4,101,233	19.26%
Unrestricted (Deficit)	(149,312,009)	(329,134,677)	179,822,668	-54.63%
Total Net Position	\$ 830,604,655	\$ 643,001,668	\$ 187,602,987	29.18%

Changes in Net Position

The Municipality's net position increased by approximately \$47.5 million. This increase was due mainly to transferred funds from CRIM as a result of the implementation of the Joint Resolution Number 94 of August 1, 2019, that was effective during the fiscal year 2019.

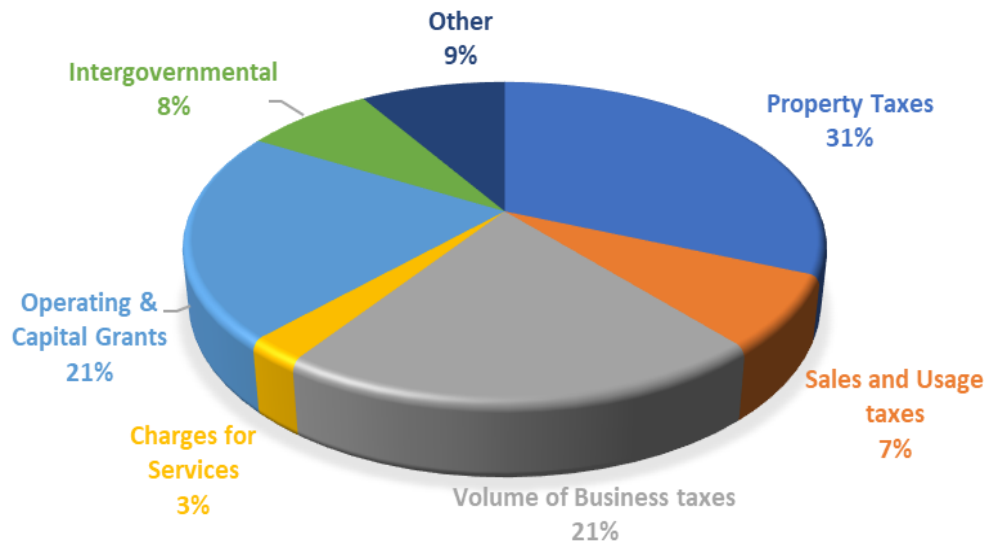
Approximately 60 percent of the Municipality's total revenue came from taxes, while 21 percent resulted from grants and contributions, including federal aid. Charges for Services provided 2 percent of the total revenues. Interest earnings and miscellaneous provided 17 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, economic and social development, and health and sanitation. As follow, is presented a comparative analysis of government-wide data. In this analysis was determined the percentage change in revenues and expenditures from prior year to current year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

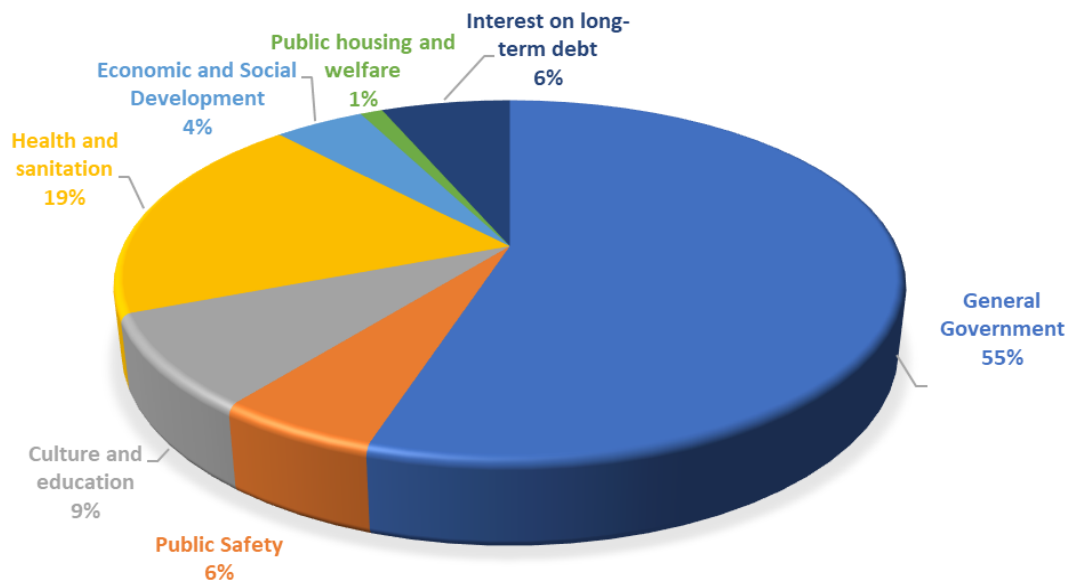
	Governmental Activities			Percentage Change
	2021	2020	Dollar Change	
Revenues:				
Program Revenues:				
Charges for Services	\$ 5,601,005	\$ 9,798,326	\$ (4,197,321)	-43%
Operating Grants and Contributions	37,959,923	18,244,350	19,715,573	108%
Capital Grants and Contributions	10,314,319	2,504,956	7,809,363	312%
General Revenues:				
Property Taxes	70,967,419	69,548,817	1,418,602	2%
Volume of Business Taxes	47,491,226	47,408,350	82,876	0%
Sales and Usage Taxes	16,747,181	13,871,859	2,875,322	21%
Intergovernmental	17,710,743	8,373,144	9,337,599	112%
Interest and Investment Income	2,309,685	2,513,322	(203,637)	-8%
Other	17,642,258	3,823,187	13,819,071	361%
Total Revenues	<u>226,743,759</u>	<u>176,086,311</u>	<u>50,657,448</u>	<u>29%</u>
Expenses:				
General Government	97,988,357	87,609,202	10,379,155	12%
Public Safety	10,106,829	11,315,993	(1,209,164)	-11%
Culture and education	15,081,865	14,769,003	312,862	2%
Health and sanitation	33,975,353	28,954,531	5,020,822	17%
Economic and Social Development	7,936,470	10,323,305	(2,386,835)	-23%
Public housing and welfare	1,975,170	1,787,050	188,120	11%
Interest on long-term debt	11,335,201	10,446,773	888,428	9%
Total Expenses	<u>178,399,245</u>	<u>165,205,857</u>	<u>13,193,388</u>	<u>8%</u>
Excess (deficiency) before special items:	<u>48,344,514</u>	<u>10,880,454</u>	<u>37,464,060</u>	<u>344%</u>
Net Change in Net Position	<u>48,344,514</u>	<u>10,880,454</u>	<u>37,464,060</u>	<u>344%</u>
Net Position, Beginning of Year, as Restated	<u>782,260,141</u>	<u>632,121,213</u>	<u>150,138,928</u>	<u>24%</u>
Net Position, Ending	<u>\$ 830,604,655</u>	<u>\$ 643,001,667</u>	<u>\$ 187,602,988</u>	<u>29%</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021

REVENUES 2021



EXPENSES 2021



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

On June 30, 2021, the governmental funds of the Municipality reported a combined fund balance of \$78,843,893. This amount represents a increase of \$39,858,771 or 49% over last year. Following is a summary of the most relevant funds' changes when compared to prior year:

General Fund – The general fund revenues increased by \$1.6 million mainly due to an increase in approximately \$3.6 million related to other revenues, an increase of approximately \$604,859 thousand in property taxes. The expenditures increased by approximately \$7.6 million in comparison from the prior year. The category with the mayor increase was General Government with \$17.6 million. No loss was recorded related to GDB deposits, since in accordance with GDB Restructuring Act, as amended, part of Municipality's debt was compensated with such deposits.

Debt Service Fund – Revenues from debt service fund increased by approximately \$782,372 thousand. The fund's expenditures decrease by approximately \$3.3 million caused by an increase in the debt service principal and interest payments.

WIOA Fund – Revenues and expenditures from the WIAO fund increased by approximately \$352,673 thousand from federal grants appropriations.

ARPA Fund- Revenue increased by approximately 18.6 million, due to increases in Federal Grants and Contributions.

Other Governmental Funds – Revenues increased by approximately \$22 million, mainly due to increases in Federal Grants and Contributions and Charge for Services. Also, the expenditures increased by approximately \$16.7 million, mainly in the Health and Sanitation category.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

GENERAL FUND BUDGETARY HIGHLIGHTS

The budgetary statement of the General Fund shows the original budget, final budget and actual revenues and expenditures for the fiscal year.

The following were most significant budgetary transactions:

- The original General Fund appropriation for fiscal year 2021 was \$128,370,006 which is less than the prior year.
- Actual budgetary transactions generated an excess of appropriations over resources of \$12,173,201 due to the following:
- Actual revenues were less than budgeted amounts by \$916,049. This result was mainly a combination of a decrease in licenses and permits, and other revenues.
- Actual appropriations resulted in an economy of \$13,089,251. All functions presented economies, especially general government and health and sanitation, which presented \$10,404,322 and \$1,873,793 respectively.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

	<u>Original</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Property Taxes	\$ 43,409,314	\$ 43,409,294	\$ (20)
Municipal License taxes	45,000,000	47,814,979	2,814,979
Sales and use taxes	14,400,000	16,753,504	2,353,504
Licenses and permits	3,500,000	4,204,863	704,863
Charges for services and rent	2,256,005	2,050,790	(205,215)
Intergovernmental revenues:			
State contributions	7,396,424	7,396,424	-
Interest, fines, and penalties	2,310,000	2,182,512	(127,488)
Other Revenues	10,098,263	3,641,591	(6,456,672)
Total revenues	<u>128,370,006</u>	<u>127,453,957</u>	<u>(916,049)</u>
 EXPENDITURES			
Current:			
General Government	83,573,755	72,894,681	(10,679,074)
Public Safety	10,240,904	9,684,652	(556,252)
Culture and Education	2,414,564	1,665,675	(748,889)
Health and Sanitation	31,853,001	30,747,410	(1,105,591)
Economic Development	287,782	288,338	556
Total expenditures	<u>128,370,006</u>	<u>115,280,756</u>	<u>(13,089,250)</u>
Excess of revenues over appropriations	<u>\$ -</u>	<u>\$ 12,173,201</u>	<u>\$ 12,173,201</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets for Governmental Activities as of June 30, 2021, amounts to \$1,412,976,420 with an accumulated depreciation of \$303,935,659, leaving a net book value of \$1,109,040,761. These investments in capital assets include land, buildings and improvements, vehicles, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Net Capital Assets Activity for the year ended at June 30, 2021 decreased by \$10,116,100 when compared with the prior fiscal year. Depreciation charges for the year totaled \$14,700,851.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

	<u>Total</u>			
	<u>2021</u>	<u>2020</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Capital assets not being depreciated</u>				
Land and improvements	\$ 686,447,912	\$ 686,447,912	\$ -	0.00%
Construction in progress	26,883,549	25,185,167	1,698,382	6.74%
Works of art and historical treasures	3,679,605	3,679,605	-	0.00%
Total not being depreciated	<u>717,011,066</u>	<u>715,312,684</u>	<u>1,698,382</u>	<u>0.24%</u>
<u>Capital assets net of depreciation</u>				
Building and building improvements	235,939,848	242,918,159	(6,978,311)	-2.87%
Infrastructure	144,744,954	147,877,117	(3,132,163)	-2.12%
Vehicles and equipment	11,344,893	11,350,518	(5,625)	-0.05%
Total net of depreciation	<u>392,029,695</u>	<u>402,145,794</u>	<u>(10,116,099)</u>	<u>-2.52%</u>
Total capital assets net of depreciation	<u>\$ 1,109,040,761</u>	<u>\$ 1,117,458,478</u>	<u>\$ (8,417,717)</u>	<u>-0.75%</u>

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

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that for a Municipality to be able to issue additional general obligation bonds and notes such Municipality must have sufficient "payment capacity".

Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues.

Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with deposits in the Municipality's

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

	2021	2020	Dollar Change	Percentage Change
Governmental Activities				
Bonds payable	\$ 173,066,362	\$ 189,770,362	\$ 16,704,000	8.80%
Notes payable- Law 42	4,169,936	4,293,181	123,245	2.87%
Notes payable- Law 46	1,390,125	1,516,495	126,370	8.33%
Loan Guarantee 108	-	-	-	0.00%
Net pension liability	153,721,576	301,066,600	147,345,024	48.94%
Capital leases	7,107,751	10,080,091	2,972,340	29.49%
Compensated absences	17,476,974	17,217,610	(259,364)	-1.51%
Landfill obligation	7,503,640	7,808,384	304,744	3.90%
A.S.E.S.	-	2,704,203	2,704,203	100.00%
Employees Retirement System	-	8,459,802	8,459,802	100.00%
COFIM	1,972,813	3,597,313	1,624,500	45.16%
Claims and judgements	261,000	2,743,667	2,482,667	90.49%
Municipality of Bayamón	-	5,000,000	5,000,000	100.00%
CRIM	-	844,651	844,651	100.00%
Total governmental	366,670,177	555,102,359	188,432,182	33.95%
Business-Type Activities				
Revenue Bond Payable	20,163,152	20,443,152	280,000	1.37%
Total	\$ 386,833,329	\$ 575,545,511	\$ 188,712,182	32.79%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property taxes, municipal license taxes and sales taxes, as well as federal grants to carry out the governmental activities. The Municipality's major source of revenue is property taxes revenue. Property taxes revenue increased 2%.

The Municipality's revenues and expenditures were implemented with a conservative approach to reflect the economic conditions that are expected to continue through 2021-2022, including a reduction in resources from the General Funds provided to Municipalities established in the Fiscal Plan presented by the Government of Puerto Rico.

Those factors were considered when preparing the Municipality's budget for the 2021-2022 fiscal year.

Economic and Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: The general fund budget for fiscal year 2020-2021 was \$128.3 million, representing a decrease of \$48,161 when compared with fiscal year ended June 30, 2020.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 2nd floor of The Museum of Transportation or through PO Box 7885, Guaynabo, Puerto Rico 00970.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF NET POSITION
JUNE 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Primary Government
Assets			
Cash and cash equivalents	\$ 137,406,833	\$ -	\$ 137,406,833
Accounts receivable:			
Property taxes	1,881,694	-	1,881,694
Municipal license taxes	276,611	-	276,611
Rent, licenses, and permits	277,361	-	277,361
Sales and use taxes	2,970,694	-	2,970,694
Grants and contributions	2,327,001	-	2,327,001
Due from other agencies	1,970,150	-	1,970,150
Due from proprietary fund	814,770	-	814,770
Restricted deposit:			
Deposits with commercial bank	12,655,328	-	12,655,328
Cash with fiscal agent	26,038,742	2,687,468	28,726,210
Inventories	2,240,786	-	2,240,786
Non depreciable Capital Assets	717,011,066	764,700	717,775,766
Other Capital assets, net of accumulated depreciation	392,029,695	17,866,582	409,896,277
Total assets	<u>1,297,900,731</u>	<u>21,318,750</u>	<u>1,319,219,481</u>
Deferred Outflows of Resources			
Contributions to Employees Retirement System	7,260,330	-	7,260,330
Total deferred outflows of resources	<u>7,260,330</u>	<u>-</u>	<u>7,260,330</u>
Liabilities			
Accounts payable and accrued liabilities	18,652,468	25,560	18,678,028
Due to other agencies	28,100,905	-	28,100,905
Due to general fund	-	814,770	814,770
Accrued interest payable	4,211,894	-	4,211,894
Unearned revenues	40,369,986	-	40,369,986
Noncurrent liabilities :	-	-	-
Due within one year	17,482,172	340,000	17,822,172
Due in more than one year	349,188,005	19,823,152	369,011,157
Total liabilities	<u>458,005,430</u>	<u>21,003,482</u>	<u>479,008,912</u>
Deferred Inflows of Resources			
Unamortized Investment in Employees Retirement System	10,213,936	-	10,213,936
Deferred Inflows related to OPEB	6,337,040	-	6,337,040
Total deferred inflows of resources	<u>16,550,976</u>	<u>-</u>	<u>16,550,976</u>
Net Position			
Investment in Capital Assets	954,518,552	(231,432)	954,287,120
Restricted for:			
Debt Service	18,312,422	-	18,312,422
Other Purposes	7,085,690	-	7,085,690
Business-Type Activities	-	546,700	546,700
Unrestricted	(149,312,009)	-	(149,312,009)
Total net position	<u>\$ 830,604,655</u>	<u>\$ 315,268</u>	<u>\$ 830,919,923</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	
Primary Government:							
General government	\$ 97,988,357	\$ 5,601,005	\$ 5,703,331	\$ -	\$ (86,684,021)	\$ -	\$ (86,684,021)
Public safety	10,106,829	-	-	-	(10,106,829)	-	(10,106,829)
Public housing and welfare	1,975,170	-	1,969,666	-	(5,504)	-	(5,504)
Culture and education	15,081,865	-	8,608,367	-	(6,473,498)	-	(6,473,498)
Health and sanitation	33,975,353	-	1,976,666	-	(31,998,687)	-	(31,998,687)
Economic development	7,936,470	-	19,701,893	10,314,319	22,079,742	-	22,079,742
Interest on long-term debt	11,335,201	-	-	-	(11,335,201)	-	(11,335,201)
Total primary government	<u>\$ 178,399,245</u>	<u>\$ 5,601,005</u>	<u>\$ 37,959,923</u>	<u>\$ 10,314,319</u>	<u>\$ (124,523,998)</u>	<u>\$ -</u>	<u>\$ (124,523,998)</u>
Business-Type Activities:							
Los Filtros Toll	2,476,253	1,741,905	-	-	-	(734,348)	(734,348)
Guaynabo Development Enterprise	75,730	71	-	-	-	(75,659)	(75,659)
	2,551,983	1,741,976	-	-	-	(810,007)	(810,007)
Total primary government	<u>\$ 180,951,228</u>	<u>\$ 7,342,981</u>	<u>\$ 37,959,923</u>	<u>\$ 10,314,319</u>	<u>\$ (124,523,998)</u>	<u>\$ (810,007)</u>	<u>\$ (125,334,005)</u>
General revenues:							
Property taxes					70,967,419	-	70,967,419
Sales and use taxes					16,747,181	-	16,747,181
Municipal license taxes					47,491,226	-	47,491,226
Grants and contributions not restricted to specific programs					17,710,743	-	17,710,743
Interest, fines, and penalties					2,309,685	13,146	2,322,831
Other revenues					17,642,258	-	17,642,258
Total general revenues and transfers					<u>172,868,512</u>	<u>13,146</u>	<u>172,881,658</u>
Change in net position					48,344,514	(796,861)	47,547,653
Net position at beginning of year, as restated					<u>782,260,141</u>	<u>1,112,129</u>	<u>783,372,270</u>
Net position at end of year					<u>\$ 830,604,655</u>	<u>\$ 315,268</u>	<u>\$ 830,919,923</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021**

<u>Assets</u>	<u>General</u>	<u>Debt Service</u>	<u>WIOA Funds</u>	<u>ARPA Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 92,141,611	\$ -	\$ 4,809	\$ 18,550,725	\$ 26,709,688	\$ 137,406,833
Accounts receivable:						
Property taxes	1,881,694	-	-	-	-	1,881,694
Municipal license taxes	276,611	-	-	-	-	276,611
Sales taxes	2,970,694	-	-	-	-	2,970,694
Rent, licenses, and permits	277,361	-	-	-	-	277,361
Grants and contributions	-	-	183,202	-	2,143,799	2,327,001
Due from other agencies	1,192,009	630,935	109,837	-	37,369	1,970,150
Due from other funds	2,436,692	-	-	-	-	2,436,692
Due from proprietary fund	814,770	-	-	-	-	814,770
Inventories	2,240,786	-	-	-	-	2,240,786
Restricted deposits:						
Deposits with comercial bank	-	4,527,526	-	-	8,127,802	12,655,328
Cash with fiscal agent	-	26,038,742	-	-	-	26,038,742
Total assets	<u>\$ 104,232,228</u>	<u>\$ 31,197,203</u>	<u>\$ 297,848</u>	<u>\$ 18,550,725</u>	<u>\$ 37,018,658</u>	<u>\$ 191,296,662</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021**

<u>Liabilities and Fund Balances</u>	<u>General</u>	<u>Debt Service</u>	<u>WIOA Funds</u>	<u>ARPA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities						
Account payable and accrued liabilities	\$ 16,723,492	\$ -	\$ 388,992	\$ -	\$ 1,539,984	\$ 18,652,468
Due to other funds	-	1,269,433	109,837	-	1,057,422	2,436,692
Due to other agencies	28,100,905	-	-	-	-	28,100,905
General obligations:						
Bonds	-	17,113,000	-	-	-	17,113,000
Interest	-	4,211,894	-	-	-	4,211,894
Unearned revenue	40,369,986	-	-	-	-	40,369,986
Claims and judgements	261,000	-	-	-	-	261,000
Total liabilities	<u>85,455,383</u>	<u>22,594,327</u>	<u>498,829</u>	<u>-</u>	<u>2,597,406</u>	<u>111,145,945</u>
Deferred Inflows of Resources						
Intergovernmental grants and contributions	742,593	-	-	-	564,231	1,306,824
Total deferred inflows of resources	<u>742,593</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>564,231</u>	<u>1,306,824</u>
Fund Balances						
Reserved for:						
Nonspendable	2,240,786	-	-	-	-	2,240,786
Restricted	-	8,602,876	-	18,550,725	33,857,021	61,010,622
Assigned	-	-	-	-	-	-
Unassigned	15,793,466	-	(200,981)	-	-	15,592,485
Total fund balances	<u>18,034,252</u>	<u>8,602,876</u>	<u>(200,981)</u>	<u>18,550,725</u>	<u>33,857,021</u>	<u>78,843,893</u>
Total liabilities and fund balances	<u>\$ 104,232,228</u>	<u>\$ 31,197,203</u>	<u>\$ 297,848</u>	<u>\$ 18,550,725</u>	<u>\$ 37,018,658</u>	<u>\$ 191,296,662</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2021**

Total fund balances - governmental funds \$ 78,843,893

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

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 1,109,040,761

- Deferred Outflows of Resources in Governmental Activities are not recorded in the funds in the current period. 7,260,330

- Some Municipality's revenues will be collected after year end but are not soon enough to pay current period's expenditures and therefore are unavailable in the funds:

Federal Grants	564,231	
State Grants	742,593	
		1,306,824

- Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds. (10,213,936)

- The Municipality recognized the current portion of bonds and interest and others that will be paid from current available resources:

Bonds Payable	(155,953,362)	
Pension Liability	(153,721,576)	
Other Post Employment Benefits (OPEB)	(6,337,040)	
Capital Leases	(7,107,751)	
Accrued Compensated Absences	(17,476,974)	
Landfill	(7,503,640)	
Due to Governmental Entities-COFIM	(1,972,813)	
Due to Governmental Entities-MRCC Law42	(4,169,936)	
Due to Governmental Entities-MRCC Law46	(1,390,125)	
		(355,633,217)

Net position of governmental activities \$ 830,604,655

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
JUNE 30, 2021

	General	Debt Service	WIOA Funds	ARPA Funds	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 43,288,528	\$ 27,678,891	\$ -	\$ -	\$ -	\$ 70,967,419
Municipal license taxes	47,491,226	-	-	-	-	47,491,226
Sales taxes	16,747,181	-	-	-	-	16,747,181
Licenses and permits	3,400,812	-	-	-	-	3,400,812
Charges for service and rents	5,601,005	-	-	-	315,176	5,916,181
Intergovernmental revenues :						
Federal grants and contributions	-	-	3,231,997	18,550,725	17,851,535	39,634,257
State contributions	7,396,424	-	-	-	10,314,319	17,710,743
Interest, fines, and penalties	2,182,512	17,577	-	-	109,596	2,309,685
Other revenues	3,641,592	-	-	-	10,599,854	14,241,446
Total revenues	<u>129,749,280</u>	<u>27,696,468</u>	<u>3,231,997</u>	<u>18,550,725</u>	<u>39,190,480</u>	<u>218,418,950</u>
EXPENDITURES						
Current:						
General government	86,046,901	-	-	-	8,344,092	94,390,993
Public safety	9,470,978	-	-	-	313,386	9,784,364
Public housing and welfare	-	-	-	-	1,816,956	1,816,956
Culture and education	1,586,635	-	-	-	10,205,954	11,792,589
Health and sanitation	22,987,525	-	-	-	10,216,357	33,203,882
Economic development	198,865	-	3,147,510	-	-	3,346,375
Capital outlays	1,713,807	-	-	-	1,425,725	3,139,532
Debt service:						
Principal retirement	-	17,113,000	-	-	-	17,113,000
Interest and other	-	11,335,201	-	-	-	11,335,201
Total expenditures	<u>122,004,711</u>	<u>28,448,201</u>	<u>3,147,510</u>	<u>-</u>	<u>32,322,470</u>	<u>185,922,892</u>
Excess (deficiency) of revenues over expenditures	<u>7,744,569</u>	<u>(751,733)</u>	<u>84,487</u>	<u>18,550,725</u>	<u>6,868,010</u>	<u>32,496,058</u>
Net change in fund balance	<u>7,744,569</u>	<u>(751,733)</u>	<u>84,487</u>	<u>18,550,725</u>	<u>6,868,010</u>	<u>32,496,058</u>
FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED	<u>10,289,683</u>	<u>9,354,609</u>	<u>(285,468)</u>	<u>-</u>	<u>26,989,011</u>	<u>46,347,835</u>
FUND BALANCE AT END OF YEAR	<u>\$ 18,034,252</u>	<u>\$ 8,602,876</u>	<u>\$ (200,981)</u>	<u>\$ 18,550,725</u>	<u>\$ 33,857,021</u>	<u>\$ 78,843,893</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
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, 2021**

Net change in fund balances - total governmental funds \$ 32,496,058

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 3,139,532
- 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 expenditure in governmental funds. (14,700,851)
- Revenues in the in the fund financial statements that do not provide current financial resources are not reported as revenues in the statement of activities. 6,530,607
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 16,203,038
- In the statements of activities, only the loss on disposition of assets is reported. (9,463)
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in the governmental funds:

Decrease in Landfill obligation	304,744	
Decrease in debt with PR Health Insurance Administration	8,795,797	
Increase in debt with PR Employee's Retirement System	(1,346,994)	
Decrease in Compensated absences	259,364	
Claims and judgements	(2,482,667)	
Municipal Revenues Collection Center	(844,651)	
	<u>4,685,593</u>	

Changes in net position of governmental activities \$ 48,344,514

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2021**

	<u>Los Filtros Toll</u>	<u>Guaynabo Development Enterprise, Inc.</u>	<u>Total Proprietary Funds</u>
<u>Assets</u>			
Restricted cash in commercial banks	\$ 2,661,877	\$ 25,591	\$ 2,687,468
Non-current assets:			
Capital assets, net	18,631,282	-	18,631,282
Total assets	<u>21,293,159</u>	<u>25,591</u>	<u>21,318,750</u>
<u>Liabilities</u>			
Current liabilities:			
Account payable	24,310	1,250	25,560
Due to other fund	714,770	-	714,770
Due to MAG	-	100,000	100,000
Total current liabilities	<u>739,080</u>	<u>101,250</u>	<u>840,330</u>
Non-current liabilities:			
Due within one year	340,000	-	340,000
Due in more than one year	19,823,152	-	19,823,152
Total non-current liabilities	<u>20,163,152</u>	<u>-</u>	<u>20,163,152</u>
Total liabilities	<u>20,902,232</u>	<u>101,250</u>	<u>21,003,482</u>
<u>Net Position</u>			
Net investment in capital assets	(231,432)	-	(231,432)
Unrestricted	622,359	(75,659)	546,700
Total net position	<u>\$ 390,927</u>	<u>\$ (75,659)</u>	<u>\$ 315,268</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF REVENUES, EXPENSE AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

	<u>Los Filtros Toll</u>	<u>Guaynabo Development Enterprise, Inc.</u>	<u>Total Proprietary Funds</u>
REVENUES			
Charges for services	\$ 1,741,905	\$ -	\$ 1,741,905
Total operating revenues	<u>1,741,905</u>	<u>-</u>	<u>1,741,905</u>
OPERATING EXPENSES			
General, administrative and maintenance	<u>784,062</u>	<u>75,730</u>	<u>859,792</u>
Total operating expenses	<u>784,062</u>	<u>75,730</u>	<u>859,792</u>
Net operating income	<u>957,843</u>	<u>(75,730)</u>	<u>882,113</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest	13,146	71	13,217
Interest on loans	<u>(1,692,191)</u>	<u>-</u>	<u>(1,692,191)</u>
Total non-operating expenses	<u>(1,679,045)</u>	<u>71</u>	<u>(1,678,974)</u>
CHANGE IN NET POSITION	<u>(721,202)</u>	<u>(75,659)</u>	<u>(796,861)</u>
TOTAL NET POSITION, BEGINNING	<u>1,112,129</u>	<u>-</u>	<u>1,112,129</u>
TOTAL NET POSITION, ENDING	<u><u>\$ 390,927</u></u>	<u><u>\$ (75,659)</u></u>	<u><u>\$ 315,268</u></u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

□

	Los Filtros Toll	Guynabo Development Enterprise, Inc.	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,741,905	\$ -	\$ 1,741,905
Payment to suppliers	(408,605)	(74,480)	(483,085)
Net cash provided by (used in) operating activities	<u>1,333,300</u>	<u>(74,480)</u>	<u>1,258,820</u>
NON CAPITAL FINANCING ACTIVITIES			
Interest	13,146	71	13,217
Net cash provided by non capital activities	<u>13,146</u>	<u>71</u>	<u>13,217</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Receipt of Municipal loan	-	100,000	100,000
Payment for interest	(1,004,654)	-	(1,004,654)
Principal payment of non-current liabilities	(280,000)	-	(280,000)
Net cash (used in) provided by capital and related financing activities	<u>(1,284,654)</u>	<u>100,000</u>	<u>(1,184,654)</u>
NET INCREASE IN CASH	61,792	25,591	87,383
CASH AT BEGINNING OF YEAR	<u>2,600,086</u>	<u>-</u>	<u>2,600,086</u>
CASH AT THE END OF YEAR	<u><u>\$ 2,661,878</u></u>	<u><u>\$ 25,591</u></u>	<u><u>\$ 2,687,469</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 957,843	\$ (75,730)	\$ 882,113
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities:			
Depreciation	375,457	-	375,457
Increase in account payable	-	1,250	1,250
Total adjustments	<u>375,457</u>	<u>1,250</u>	<u>376,707</u>
Net cash provided by operating activities	<u><u>\$ 1,333,300</u></u>	<u><u>\$ (74,480)</u></u>	<u><u>\$ 1,258,820</u></u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

1. ORGANIZATION

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

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Legislature, which has 16 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

a. Financial Reporting Entity

The financial reporting entity included in this report consists of the financial statements of the Municipality (the primary government). A primary government is any state government or general-purpose local government. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of a primary government. If an organization is part of a primary government, its financial data should be included with the financial data of the primary government. Component units are legally separate organizations for which the primary government is financially accountable or organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A component unit may be a governmental organization, a not-for-profit corporation or a for-profit corporation.

The following circumstances set forth a primary government's financial accountability for a legally separate organization:

- 1) The primary government appoints a voting majority of the entity's governing body, and either:
 - A financial benefit/burden exists between the primary government and the entity or,
 - The primary government can impose its will on the entity.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

- 2) The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.

In addition, as described above, it would be necessary to include other organizations as a component unit if the exclusion would cause the primary government's financial statements to be misleading or incomplete. Organizations that are legally separate, tax-exempt entities and that meet all the following criteria should be discretely presented as component units:

- 1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- 2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- 3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Professional judgment should be applied in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet the above criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

There are two methods of presentation of the component unit in the financial statements: (a) blending the financial data of the component units' balances and transactions and (b) discrete presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is blended with those of the primary government ("blended component units"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as blended if meets any of the following criteria:

- 1) The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
 - A financial benefit/burden exists between the primary government and the entity or,
 - Management of the primary government has operational responsibility for the primary government.
- 2) The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

- 3) The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units do not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("discretely component units"). As discussed earlier, other legally separate, tax-exempt organizations that meet the applicable criteria should be included as discretely component units.

Based on the above criteria there are no potential component units which should be included as part of the Municipality financial statements.

b. Basis of Presentation, Measurement Focus, and Basis of Accounting

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus:

- 1) **Management's Discussion and Analysis** - This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.
- 2) **Basic Financial Statements** - Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.
 - **Government-wide Financial Statements** - The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

Statement of Net Position - The Statement of Net Position incorporates all capital (long-lived) assets and receivables as well as long-term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the

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FOR THE FISCAL YEAR ENDED JUNE 30, 2021

general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating grants and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are charges for services and fees and operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Revenues on operating grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For expenditure-driven grants, revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports a liability for unearned revenues in the government-wide financial statements. Unearned revenues arise when (1) resources received in advance of an exchange transaction and (2) resources received in advance related to voluntary non-exchange transactions when eligibility requirements other than time requirements have not been met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, after related exchange transactions occur or applicable eligibility requirements are met the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

The government-wide financial statements are divided into two categories:

Governmental Activities: Most of the Municipality's basic services are reported here including public works and sanitation, public safety, culture and recreation, housing, welfare, and community development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

Business-type Activities: Business-type activities charge fees to customers to finance the costs of their activities. The activities of Los Filtros Toll and Guaynabo Development Enterprise, Inc. (the only two business-type activities) are included in this category.

- **Governmental Fund Financial Statements (GFFS)**

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity,

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revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

➤ **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.

➤ **Debt Service Fund**

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

➤ **Workforce Innovation and Opportunity Act Fund (WIOA)**

This fund account for revenues sources to help people access the tools they need to manage their careers through information and high-quality services and to help companies find skilled workers.

The governmental funds reported in the fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

In applying the susceptible to accrual concept to intergovernmental revenues, it is recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are however essentially two types of these revenues. In the first case, on expenditure-driven grants, allowable expenditures must be incurred on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue

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recognized as expenditures are incurred to the extent available. In the other cases, resources are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met.

The Municipality reports a liability for unearned revenues in the governmental fund's statements. Unearned revenues arise when (1) resources received in advance of an exchange transaction and (2) resources received in advance related to voluntary non-exchange transactions when eligibility requirements other than time requirements have not been met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, after related exchange transactions occur or applicable eligibility requirements are met the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include vested compensated absences, claims and judgments and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government - wide financial statements the expense and related accrual liability for long-term portions of debt must be included).

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds of the FFS. Likewise, long-term liabilities (generally, those un-matured that will not require the use of current financial resources to pay them) are also not accounted for in the GFFS.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

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➤ **American Rescue Plan (ARPA grants)**

The American Rescue Plan approved and delivered \$350 billion to state, local and tribal governments to support their responses to and recovery from the COVID-19 public health emergency. The SLFRF program provides governments across the country with the resources needed to:

- Fight the pandemic and support families and businesses struggling with its public health and economic impacts.
- Maintain vital public services, even amid declines in revenues resulting from the crisis.
- Build a strong, resilient, and equitable recovery making investments that support long-term growth and opportunity
- Recipients may use funds to:
 - Replace lost public sector revenues, using this funding to provide government services up to the amounts of revenue lost due to the pandemic.
 - Respond to the far-reaching public health and negative economic impacts of the pandemic, by supporting the health of communities, and helping households, small businesses, impacted industries, nonprofits and the public sector recover from economic impacts.
 - Provide premium pay for essential workers, offering additional support to those who have and will bear the greatest health risks because of their service in critical sectors.
 - Invest in water, sewer, and broadband infrastructure, making necessary investments to improve access to clean drinking water, to support vital wastewater and stormwater infrastructure, and to expand affordable access to broadband internet.

- 3) **Notes to Financial Statements** – The notes to financial statements provide information that is essential to a user’s understanding of the basic financial statements.
- 4) **Required Supplementary Information (RSI)** – The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund.
- 5) **Proprietary Funds** – Proprietary fund financial statements are accounted for using the economic resources measurement focus and the accrual basis of accounting, as the business-type activities in the government-wide financial statements. Under this method of accounting, revenues are recorded when earned, independently when are collected, and expenses are recorded when incurred, independently

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FOR THE FISCAL YEAR ENDED JUNE 30, 2021

when are paid. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The Municipality of Guaynabo have two (2) Proprietary Funds: "Los Filtros Toll" and Guaynabo Development Enterprise Inc. The principal operating revenues of the proprietary funds are charges to customers for the use of the "Avenida Conector Los Filtros" toll road that will connect highways PR-199 and PR-177 in the Municipality of Guaynabo, and the operating expenses include the cost of operations and maintenances, administration and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The proprietary fund statements include a Statement of Net position, a Statement of Revenues and Changes in Net Position and a Statement of Cash Flows.

The Municipality's proprietary funds consist of two (2) enterprise funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing good and services be financed or recovered primarily through user charges. Major Enterprise funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenses or based on the Municipality's official's criteria of the fund is particularly important to financial statement users.

The Municipality reports the following major enterprise funds:

The "Los Filtros Toll" (the Municipal Enterprise), accounts for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services (including depreciation) be financed or recovered primarily through user charges, where the Municipality has decided that periodic determination of revenues earned, and expenses incurred is appropriate.

c. Deposits and Investments or Unrestricted and Restricted Deposits

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with Fiscal Agent in the debt service fund represents special additional property tax collections retained and deposited in Commercial Bank and restricted for the payment of the Municipality's debt service, as established by law.

Cash with Fiscal Agent in the other governmental and enterprise funds consist of undisbursed proceeds of certain bonds issued with the private banking, and deposited in different private banks in Puerto Rico, for the acquisition and construction of major capital improvements, and other purposes.

COMMONWEALTH OF PUERTO RICO
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d. Landfill Closure and Post closure Care Costs

Landfill Closure and Post closure Care Costs are accounted for under the provisions of Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Post closure Care Costs, issued by the Governmental Accounting Standards Board (GASB 18).

According to GASB 18, the estimated liability for solid waste landfill closure and post closure care costs (including monitoring and maintenance) includes an estimate of all costs to be incurred near or after the close of the Municipality's solid waste landfill under the accrual basis of accounting. In the accompanying government-wide statement of net position, this liability is recognized over the useful life of the landfill, even though such costs will only be incurred, by definition, near or after the close of the landfill. The estimates of closing and post-closing costs are made using current costs.

The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

At the fund level, landfill closure and post closure care costs are recorded in the accompanying statement of revenues, expenditures and changes in fund balances, governmental funds as expenditures in the accounting period in which the liability is incurred.

e. Receivables

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from pass-through grantor represent amounts owed to the Municipality for the reimbursement of expenditures incurred.

f. Interfund Receivables and Payables

The Municipality reports inter-fund loans which represent legally advances that are representative of lending/borrowing arrangements from one fund to other fund to finance payroll, payroll taxes and other expenditures. The current portion of such transactions are referred as to either "due from/to other funds" and the noncurrent portion as "advances to/from other funds". Amounts not expected to be collected within a reasonable period of time are reduced to the estimated realizable value and amounts not expected to be repaid are reported as "transfer-out" from the lender fund and "transfer-in" in the borrower fund.

g. Inventories

Inventories in the general fund are stated at cost and consist of office, printing, and maintenance supplies, gasoline, oil and other items held for consumption and are recorded as expenditures at the time the inventory items are consumed rather than when purchased.

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The carrying value of inventories are offsetted by nonspendable fund balances of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources on June 30, 2021, since they are not expected to be converted to cash after the current fiscal year-end.

h. 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 or component units columns in the government-wide financial statements.

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. Equipment and other with a cost of \$1,000 or more are recorded at cost or estimated historical cost. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated usefully lives:

<u>Description</u>	<u>Useful Life</u>
Buildings, structure, and improvements	50 years
Public domain infrastructure	50 to 60 years
System infrastructure	50 years
Motor vehicles	8 to 10 years
Office furniture, equipment, and fixtures	5 to 20 years
Computer equipment and software	5 years

For capital leases in governmental fund financial statements, the Municipality presents the net present value of the minimum lease payments at the inception of the capital lease recorded simultaneously as expenditures and as other financing sources. Minimum lease payments are recorded as expenditures.

The Municipality periodically evaluates its capital assets to consider events or changes in circumstances that may give rise to asset impairment. Among the factors considered by management as part of its evaluation are: physical damages to an asset where action would be needed to restore lost service utility, changes in laws, regulations, or other environmental factors that may negatively affect service utility, technological developments that may negatively affect service utility, changes in the manner or duration of use of a capital asset that may negatively affect its service utility, and stoppage of construction or development of an asset.

Any impairment adjustment to the carrying value of a capital asset would be treated as a proportionate reduction of both the reported value of the asset and its accumulated

**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

depreciation, based on the notion that the impairment represents the effective retirement of a portion of the asset.

i. Leases

The Municipality classifies its lease agreements either as operating or capital leases. The Municipality classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the following four criteria:

- By the end of the lease term, ownership of the leased property is transferred to the Municipality.
- The lease agreement contains a bargain purchase option.
- The lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property.
- At the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year; most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. Leases that meet at least one of the aforementioned four criteria and have a fiscal funding or a cancellation clause are generally recorded as capital leases. Otherwise, these are recorded as operating leases. In government wide financial statements, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executory costs and profit thereon to be paid by the lessor. A portion of each minimum lease payment is allocated to interest expense and the balance is applied to reduce the lease obligation using the effective interest method.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, Elements of Financial Statements, as the acquisitions and consumptions of net assets by the government that is applicable to future periods. Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," the Municipality recognizes deferred outflows and inflows of resources.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Based on this concept, the Municipality reports the following as deferred outflows of resources and deferred inflows of resources.

- Various types of revenues earned but not available within 90 days of fiscal year end.

The Municipality has items, which arise only under accrual basis and modified accrual basis of accounting that qualify for reporting in deferred outflows/inflows of resources. Accordingly, the items, related to pension system are reported in the government-wide Statement of Net Position, and unavailable revenue, is reported only in the governmental funds Balance Sheet. The governmental funds report unavailable revenues from various sources: State and Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.

Long-term Debt Obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities' column in the Statement of Net Position, include general and special obligation bonds and notes, liabilities for compensated absences, claims and judgments, landfill closure and post-closure costs and long-term liabilities to other governmental entities.

Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

**COMMONWEALTH OF PUERTO RICO
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j. Net Position

In the government-wide financial statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

Net investment

in capital assets: Consists of capital assets, net of accumulated depreciation.

**Restricted net
position:**

The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation.

**Unrestricted net
position:**

Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal, and management can remove or modify them.

k. Net Position Flow Assumption

Sometimes, the government will fund outlays for a particular purpose from both restricted (restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

l. Fund Balances

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54") establish accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

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- 1) ***Nonspendable*** - Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- 2) ***Restricted*** - Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation.
- 3) ***Committed*** - Amounts that can be used only for the specific purposes imposed through formal resolutions by the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the highest level of decision-making authority of the Municipality removes or changes the specified use by taking the same type of action (formal resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- 4) ***Assigned*** - Amounts that are constrained by the Municipality's intent to be used for specific purposes but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the Municipality's highest level of decision-making authority, the Municipal Legislature. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.
- 5) ***Unassigned*** - Is the residual classification and includes all spendable amounts not restricted, committed or assigned. For all other governmental funds, the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

Negative fund balance amounts are assigned amounts reduced to eliminate the deficit. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that indicate the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established any formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2021.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality

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generally spends committed resources first, followed by assigned resources, and then unassigned resources.

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

m. Fund Balance Flow Assumptions

Sometimes, the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

n. Risk Financing

The Municipality carries commercial insurance that consists of professional, public responsibility, property, and theft, auto and fidelity bond coverage. Under Law No. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality's commercial insurance and health plan coverages are procured and negotiated through a single insurance broker.

The broker obtains quotes from the different insurance companies and the Municipality's management makes the selection based on coverage and price. The total cost of the annual premiums is paid directly by the Municipality.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. The CRIM deducted by approximately \$ 1.6 million for workers' compensation insurance covering all municipal employees.

o. Fair Value of Financial Instruments

The Municipality adopted the provisions of GASB Statement No. 72, *Fair Value Measurements and Application*. The fair value measurements made in the accompanying financial statements assume that transactions take place in the Municipality's principal market, or the Municipality's most advantageous market in the

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absence of a principal market. Fair values have been measured assuming that general market participants would act in their economic best interest.

To determine a fair value measurement, fair values have not been adjusted for transaction costs and the Municipality has considered the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards.

The Municipality has used valuation techniques that are appropriate under the circumstances and for which enough data are available to measure fair values. The techniques applied are consistent with one or more of the following approaches: (1) the market approach, (2) the cost approach, or (3) the income approach.

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques have been applied consistently, though a change may be appropriate in certain circumstances.

The fair value measurements applied by management takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, the Municipality uses the fair value of that asset to measure the fair value of the liability.

The Municipality's financial instruments consist of cash and cash equivalents, accounts and loans receivable, other assets, accounts payable and accrued liabilities, bonds and notes payable and other long-term obligations.

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The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we can access.

Level 2 – Inputs to the valuation methodology include:

- quote prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; or
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for a substantial portion of the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Based on the criteria set forth above, the Municipality has classified its financial instruments as Level 2 instruments as of June 30, 2021.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Municipality's valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer would be reported at the beginning of the fiscal year. For the fiscal year ended June 30, 2021, there were no transfers from Level 2 to other categories.

The following methods and assumptions were used to estimate the fair values of the most significant financial instruments at June 30, 2021. There have been no changes in valuation methods.

For cash in commercial banks and deposits with governmental bank, accounts and loans receivable, other assets and accounts payable and accrued liabilities, their respective estimated fair values approximate their carrying amounts recorded in the accompanying financial statements. The cost or contract value (net realizable value of assets and estimated settlement amounts of liabilities) was used to determine their respective fair values of these assets and liabilities due to their short-term nature and maturity periods. In the case of cash equivalents, these assets are generally acquired and renewed at the prevailing market interest rates for this type of instruments and have no contractual restrictions or liens.

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For bonds payable, notes payable and other long-term obligations, the estimated fair values also approximate carrying amounts. These obligations have been incurred at the prevailing market interest rates and terms for these types of instruments, accordingly, the Municipality determined their fair values using valuation models that use observable market quotes.

Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The judgments made in determining the estimated fair value assigned to each financial instrument is significant and can materially impact the changes in net position and fund balances of the Municipality. The valuations are based on information available at June 30, 2021 and are based on expectations and assumptions that have been deemed reasonable by management.

Estimates developed using alternate are subjective, requiring significant judgments such as the amount and timing of future cash flows and the selection of appropriate discount rates that reflects market and credit risk.

The preceding valuation methods described may produce a fair value calculation that may not be indicative of net realizable or reflective of future fair values. Furthermore, while management believes that the Municipality's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

However, the estimated fair values and carrying values of the Municipality's financial instruments were not considered significant by management at June 30, 2021.

p. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. 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 of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, Compensated Absences, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of Social Security and Medicare tax payments made on behalf of the employees in the accrual for vacation

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and sick leave pay using salary rates effective at June 30, 2021. All vacation pay is accrued when incurred in the Net Position Statement. For the Governmental Fund Financial Statements (GFFS), all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee's separation from employment.

q. Post-Employment Benefits

On August 23, 2017, became effective the Law to Guarantee the Payment of Pensions to Retirees and for Establishing a New Defined Contribution Retirement Plan for Public Employees (Law 106). Law 106 reformed the Retirement System of the Administration for the Retirement Systems of the Commonwealth of Puerto Rico by (a) eliminating the required employer contributions to the Retirement System that was required to all participants of such System, including the Municipalities; and (b) requiring to all employees of the participant entities to contribute a minimum of 8.5% of monthly salary to the new defined contribution retirement plan, under the Pay Go System. Both the required contributions from employees and the elimination of all employer contributions became effective on July 1, 2017. Pay-Go charge expenditure of to the Municipality during the fiscal year ended June 30, 2021, amounted to \$7,112,808.

r. Claims and Judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when they matured (generally, when payment is due). The accompanying government-wide financial statements include an amount estimated as a contingent liability for liabilities as incurred.

s. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the fiscal year to control expenditures. The unencumbered balance of any appropriation of the General Fund at the end of the fiscal year lapses immediately. Appropriations, other than in the General Fund, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

t. Use of Estimates

The preparation of the basic financial statements in accordance 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 basic financial statements and the reported amounts of revenues and expenditures during

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the reporting period. Actual results could differ from those estimates. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

u. Future Adoption of Accounting Pronouncements

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

Statement Number	Statement Name	Adoption Required in Fiscal Year
87	Leases	2021-2022
89	Accounting for Interest Cost Incurred Before the End of a Construction Period	2021-2022
91	Conduit Debt Obligation	2022-2023
92	Omnibus 2020	2020-2022
93	Replacement of Interbank Offered Rates	2021-2022
94	Public-Private and Public-Public Partnership and Availability Payments Arrangements	2022-2023
96	Subscription-Based Information Technology Arrangements	2022-2023
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	2020-2022
98	The Annual Comprehensive Financial Report	2021-2022
99	Omnibus 2022	2022-2023

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

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3. CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS

Custodial credit risk for cash and cash equivalents is the risk that in the event of bank failure, the Municipality's deposits may not be recovered. Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Secretary of the Treasury of the Government of Puerto Rico, but not in the Municipality's name. The Municipality's cash and cash equivalents consist principally of unrestricted and restricted demand deposits in various commercial banks.

Unrestricted deposits of \$92,141,611 in the general fund are available to meet general operating requirements of the Municipality.

Restricted cash in other proprietary funds amounting \$2,687,468 consists of collections revenues "Los Filtros" Toll and Guaynabo Development Enterprise, Inc. These funds are restricted for the payment of revenue bonds debt balances and maintenance and other expenses.

Concentration of credit risk, this is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2021, the Municipality has invested only in cash equivalents of \$137 million consisting of interest-bearing account in commercial banks, which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt or equity securities were made during the Fiscal year ended June 30, 2021.

Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2021.

4. PROPERTY TAXES

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

The rates are 10.08% and 8.08% for real and personal property, respectively. The composition is as follows:

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<u>Description</u>	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	3.25%	3.25%
Discounts made by state to taxpayer	(.20%)	(.20%)
	<u>10.08%</u>	<u>8.08%</u>

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

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

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

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts 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 ends. 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 collected by the CRIM, a payable to the CRIM is recorded at June 30.

Based on the final settlement already received, during the year ended June 30, 2021, the amount collected by CRIM from taxpayers and charges exceeded the amount advanced by CRIM for the same period by \$630,935. Such amount is presented as due from CRIM from the accompanying financial statements.

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5. MUNICIPAL LICENSE TAXES

Municipal license tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2021. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Guaynabo and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

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

Financial institutions	=	<u>1.5%</u>
Other organizations	=	<u>0.5%</u>

The amounts collected in advance are recorded as deferred inflows of resources in the General Fund. Any municipal license taxes collected in advance are recorded as unearned revenues. The Municipality invoiced and collected in advance during the current year approximately \$40 million, corresponding to the next fiscal year municipal license tax.

6. SALES AND USE TAXES

The Municipality imposes a municipal sales and usage tax within the territorial limits of the Municipality. This is a derived tax applied to the sale price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. It is collected on a monthly basis through a tax return that is due the twenty calendar days after the end of each month.

On January 24, 2014, Act No.18, known as Municipal Administration Fund Act (Act No. 18), and Act No. 19, known as Municipal Finance Corporation Ac, (Act No. 19) were enacted to, among other things, amend Sections 4020.01, 4020.02 and 6080.14 of Act No. 1 of January 31, 2011, known as Internal Revenue Code for a New Puerto Rico.

Effective July 1, 2014, Act No. 18 reduced the statutory municipal sales and usage tax rate of all municipalities from one-point five percent (1.5%) to one-point zero percent (1.0%). Simultaneously, Act No.19 created the Municipal Finance Corporation (MFC), an affiliated public company of GDB, which is authorized to issue bonds and use other financing mechanisms to directly or indirectly pay or refinance all or part of the municipal long-term debt incurred by the Municipality in previous fiscal years, that are payable from or backed by the municipal sales and usage taxes.

In order to mitigate the effects of the reductions in the municipal sales and usage tax rate referred to above, Act No. 18 established the mechanisms to protect the financial stability of the Municipality by allowing it to continue receiving the economic benefits lost as a consequence of the reduction in the statutory municipal sales and usage tax rate referred to above. For these purposes, effective July 1, 2014, Act No. 18 requires that an amount equal to zero-point five percent (0.5%) of the sales and usage taxes collected by the

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Commonwealth of Puerto Rico be deposited in a special fund to be known as Municipal Administration Fund (MAF) in the name and for the benefit of the Municipality.

Accordingly, since July 1, 2014, the Commonwealth of Puerto Rico has made advances from the collections arising from the zero-point five percent (0.5%) of the sales and usage taxes to the MAF of the Municipality. The advances have been made and distributed to the Municipality on a monthly basis as follows in accordance with Section 4050 of Act No. 1, as amended:

For municipalities covered by the agreement, the 0.5% will be distributed as follows:

- 0.2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- 0.2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities have the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions.
- 0.1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

7. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

	<u>Amount</u>
<u>General Fund</u>	
Puerto Rico's Department of Transportation	\$1,192,009
<u>Debt Service Fund</u>	
Municipal Revenue Collection Center	630,935
<u>WIOA Funds</u>	
PR Department of Economic Development and Commerce	109,837
<u>Other Governmental Funds</u>	
Puerto Rico's Department of Family	<u>37,369</u>
Total	<u>\$1,970,150</u>

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8. INTERFUND TRANSACTIONS

The due from and due to other fund balances as of June 30, 2021, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	WIOA	\$ 109,837
General	Debt Service	1,269,433
General	Other Governmental	1,057,422
		<u>2,436,692</u>
General	Proprietary fund	<u>814,770</u>
Total		<u><u>\$ 3,251,462</u></u>

The purpose of these accounts is to recognize the outstanding balance of \$1,982,029 of short-term loans granted by the general fund to other governmental funds and proprietary fund to temporarily finance the payroll, construction, and other operating costs of several federal programs.

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9. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2021, was as follows:

a. Primary Government

DESCRIPTION	BALANCE JUNE 30, 2020	INCREASE	DECREASE	BALANCE JUNE 30, 2021
Non-Depreciable Capital Assets:				
Land and Improvements	\$ 686,447,912	\$ -	\$ -	686,447,912
Construction in Progress	25,185,167	1,698,382	-	26,883,549
Works of Art	3,679,605	-	-	3,679,605
Total Non-Depreciable Capital Assets	715,312,684	1,698,382	-	717,011,066
Depreciable Capital Assets:				
Buildings and Improvements	403,947,754	-	-	403,947,754
Infrastructure	209,035,572	1,435,755	-	210,471,327
Equipment and Vehicles	78,211,110	3,139,533	195,630	81,546,273
Total Depreciable Capital Assets	691,194,436	4,575,288	195,630	695,965,354
Less Accumulated Depreciation:				
Buildings and Facilities	(161,029,595)	(6,978,311)	-	(168,007,906)
Infrastructure	(61,158,455)	(4,567,918)	-	(65,726,373)
Equipment and Vehicles	(66,860,591)	(3,154,622)	(186,167)	(70,201,380)
Total Accumulated Depreciation	(289,048,641)	(14,700,851)	(186,167)	(303,935,659)
Total Depreciable Capital Assets (Net)	402,145,795	(10,125,563)	9,463	392,029,695
CAPITAL ASSETS, NET	\$ 1,117,458,479	\$ (8,427,181)	\$ 9,463	\$ 1,109,040,761

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Depreciation expense for capital assets of governmental activities was charged to the following functions as follows:

Governmental Activities:	Amount
Public Works (Mainly Streets)	\$ 385,330
Culture and education	4,875,911
General Government	3,597,365
Economic Development	4,590,095
Public Safety	322,465
Health and sanitation	771,471
Public housing and welfare	158,214
Total depreciation expense	<u>\$ 14,700,851</u>

b. Business-Type Activities

**Enterprise fund Capital Assets Rollforward
June 30, 2021**

DESCRIPTION	BALANCE JUNE 30, 2020	DECREASE	BALANCE JUNE 30, 2021
Capital assets, not being depreciated:			
Land and Improvements	\$ 764,700	\$ -	\$ 764,700
Construction in Progress	-	-	-
Works of Art	-	-	-
Total non-depreciable capital assets	<u>764,700</u>	<u>-</u>	<u>764,700</u>
Capital assets, being depreciated:			
Buildings and Improvements	-	-	-
Infrastructure	18,997,828	-	18,997,828
Equipment and Vehicles	-	-	-
Total depreciable capital assets	<u>18,997,828</u>	<u>-</u>	<u>18,997,828</u>
Less Accumulated depreciation for:			
Buildings and Facilities	-	-	-
Infrastructure	(755,789)	-	(1,131,246)
Equipment and Vehicles	-	-	-
Total Accumulated Depreciation	<u>(755,789)</u>	<u>-</u>	<u>(1,131,246)</u>
Total depreciable capital assets, net	<u>18,242,039</u>	<u>-</u>	<u>17,866,582</u>

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10. DEFERRED OUTFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the Municipality recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Municipality that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

At the end of the current fiscal year, the Municipality has an item that is reportable on the Government-wide Statement of Net Position that relates to outflows from changes in the Net Pension Liability and Contributions to Employment Retirement System of \$7,260,330.

11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2021 are as follows:

<u>General Fund</u>	Amount
P. R. Electric Power Authority	\$ 8,438,547
P. R. Health Insurance Administration (ASES)	11,500,000
Retirement System	7,112,808
Puerto Rico Water and Sewer Authority	1,031,982
General Service Administration	17,568
Total	<u>\$ 28,100,905</u>

12. UNEARNED REVENUES

Government-wide Statement of Net Position and Governmental Funds Balance Sheet reports unearned revenues for resources received before it has a legal claim to them; in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period, which corresponded to Volume of Business Taxes in the amount of \$40,369,986.

13. DEFERRED INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the Municipality recognized deferred inflows of resources in the government-wide and fund statements. These items are an acquisition of net position by the Municipality that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

The Municipality has an item that are reportable on the government-wide Statement of Net Position that are relates to inflows from changes in the Net Pension Liability.

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Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds Balance Sheet report Deferred Inflows of Resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

Deferred inflows of resources are as follows at June 30, 2021:

<u>Description</u>	<u>General Fund</u>	<u>Other Governmental</u>	<u>Net Position</u>
Unavailable revenues			
Intergovernmental and Federal grants and contributions	\$ 742,593	\$ 564,231	\$ -
Deferred inflows related to OPEB	-	-	6,337,040
Unamortized Investment in ERS	-	-	10,213,936
Total deferred inflows of resources	<u>\$ 742,593</u>	<u>\$ 564,231</u>	<u>\$ 16,550,976</u>

14. INTERGOVERNMENTAL REVENUES

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

15. LONG-TERM DEBTS

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- a. Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit, and taxing power of the Municipality; and
- b. Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the Municipality's property.

There is not legal limitation on the amount of debt that the Municipality may guarantee so long as the 10 percent limitation is not exceeded. On June 30, 2021, the Municipality is in compliance with the debt limitation requirements.

**COMMONWEALTH OF PUERTO RICO
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Bonds and notes payable and other debt outstanding at June 30, 2021 are as follows:

a. General Obligations Bonds

	<u>Amount</u>
\$10,500,000 series of 2000, payable in annual installments of \$755,000 to \$2,380,000 until July 1, 2024, interest ranging from 7.29% to 7.50%.	3,160,000
\$26,235,000 series of 1997, payable in annual installments of \$355,000 to \$2,275,000 until July 1, 2021, interests from 4.70% to 6.63%.	2,275,000
\$21,100,000 series of 1997, payable in annual installments from \$305,000 to \$66,000 until July 1, 2022, interests from 6.69% to 7.50%.	3,400,000
\$16,355,000 series of 1998, payable in annual installments from \$240,000 to \$1,365,000 until July 1, 2023, interests from 6.00% to 7.50%.	3,815,000
\$10,455,000 series of 2001, payable in annual installments from \$145,000 to \$910,000 until July 1, 2025, interests from 5.00% to 8.00%.	3,910,000
\$2,760,000 series of 2002, payable in annual installments from \$45,000 to \$220,000 until July 1, 2026, interests from 5.00% to 7.00%.	1,130,000
\$4,625,000 series of 2002, payable in annual installments from \$65,000 to \$385,000 until July 1, 2026, interests from 5.00% to 7.50%.	1,950,000
\$2,920,000 series of 2003, payable in annual installments from \$50,000 to \$225,000 until July 1, 2027, interests from 2.70% to 5.60%.	1,315,000
\$2,715,000 series of 2003, payable in annual installments from \$45,000 to \$215,000 until July 1, 2027, interests from 5.00% to 6.50%.	1,230,000
Subtotal	<u>22,185,000</u>

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Continued	<u>Amount</u>
\$485,000 series of 2004, payable in annual installments from \$5,000 to \$35,000 until July 1, 2028, interests from 1.65% to 6.50%.	240,000
\$3,895,000 series of 2004, payable in annual installments from \$65,000 to \$300,000 until July 1, 2028, interests from 1.65% to 6.50%.	1,950,000
\$2,515,000 series of 2005, payable in annual installments of \$55,000 to \$170,000 until July 1, 2029, interests ranging from 4.37% to 5.0%.	1,265,000
\$6,020,000 series of 2007, payable in annual installments of \$140,000 to \$550,000 until July 1, 2026, interests from 6.60% to 7.50%.	1,477,916
\$33,375,000 series of 2008, payable in annual installments of \$595,000 to \$2,830,000 until July 1, 2032, interests from 1.48% to 7.50%.	19,349,030
\$6,325,000 series of 2010, payable in annual installments from \$90,000 to \$530,000 until July 1, 2033, interests from 1.53% to 7.50%.	4,238,761
\$6,270,000 series of 2012, payable in annual installments from \$115,000 to \$465,000 until July 1, 2034, interests from 4.75% to 6.00%.	4,559,890
\$12,350,000 series of 2012, payable in annual installments from \$220,000 to \$910,000 until July 1, 2034, interests from 4.75% to 7.50%.	8,974,264
\$24,015,000 series of 2012, payable in annual installments from \$405,000 to \$1,850,000 until July 1, 2034, interests from 4.75% to 7.50%.	15,569,233
Subtotal	<u>57,624,094</u>

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Continued	<u>Amount</u>
\$9,045,000 series of 2012, payable in annual installments from \$130,000 to \$755,000 until July 1, 2034, interests from 4.75% to 7.50%.	6,733,190
\$53,355,000 series of 2012, payable in annual installments from \$1,647,000 to \$4,434,000 until July 1, 2028, interests from 4.60% to 5.77%.	29,283,000
\$20,690,000 series of 2012, payable in annual installments from \$300,000 to \$1,720,000 until July 1, 2035, interest from 6.01% to 7.50%.	16,035,658
\$14,700,000 series of 2014 payable in annual installments from \$310,000 to 960,000 until July 1, 2038, interest from 4.00% to 7.50%.	12,350,000
\$7,636,000 series of 2014 payable in annual installments from \$110,000 to \$636,000 until July 1, 2039, interest from 7.00% to 7.50%.	6,816,892
\$15,795,000 series of 2014 payable in annual installments from \$225,000 to \$1,320,000 until July 1, 2039, interest from 7.00% to 7.50%.	6,569,528
\$16,255,000 series of 2015 payable in annual installments from \$747,000 to \$1,502,000 until July 1, 2030, interest at 6.00%.	12,119,000
\$5,000,000 series of 2015 payable in annual installments from \$376,000 to \$914,000 until July 1, 2025, interest from 6.00% to 8.00%.	<u>3,350,000</u>
Subtotal	<u>93,257,268</u>
Total bonds payable	<u><u>\$ 173,066,362</u></u>

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FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

b. Notes Payable

Amount

Note payable – CRIM (Law 42) – represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The repayment agreement amounted to \$7,028,503 that is payable in annual aggregate principal installments of \$81,312, plus interest rate of 6.25% until July 1, 2032.

\$ 4,169,936

Note Payable – CRIM (Law 146) – The Municipality entered into a financing agreement with the CRIM in the amount of \$3,159,732, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2011. The agreement is in the form of a no revolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032.

1,390,125

Total Notes Payable

\$ 5,560,061

The annual debt service requirements for the bonds payable and notes payable at June 30, 2021, are as follows:

	<u>Bonds Payable</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2022	17,113,000	11,335,201	384,429	299,353
2023	15,872,000	9,903,258	400,641	279,026
2024	15,131,000	9,261,645	417,875	257,677
2025	14,592,916	8,290,104	436,190	235,244
2026-2030	65,434,000	27,605,749	2,498,591	776,281
2031-2035	37,090,896	9,105,877	1,422,335	114,871
2036-2040	7,832,550	1,292,618	-	-
	<u>\$ 173,066,362</u>	<u>\$ 76,794,452</u>	<u>\$ 5,560,061</u>	<u>\$ 1,962,452</u>

As described in note 5, the Municipality levies an annual special tax of 3.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM

c. Arbitrage Rebate Requirement

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements.

**COMMONWEALTH OF PUERTO RICO
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d. Other Long-Term Debts	<u>Amount</u>
<u>Capital Leases</u> – represents the capital lease obligations into several lease agreements.	\$ 7,107,751
<u>Due to PR Health Insurance Administration (ASES)</u> - The Municipality entered in payment plan on the amount of \$18,000,000 with the Puerto Rico Health Reform of the Commonwealth of Puerto Rico on 2013 for the concepts of medical claims for previous years. The term of agreement is a \$3,000,000 down-payment and \$1,500,000 payable annually for ten years.	11,500,000
<u>Compensated absences</u> – includes accrued vacations, sick leave and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds.	17,476,974
<u>Claims and judgements</u> – Represents estimated losses of legal cases to be paid subsequent to June 30, 2021. The awarded amount, if any, will be paid with unrestricted funds.	261,000
<u>Retirement System</u> – The debt corresponds to the amount due for the additional uniform contribution for fiscal year 2016-17. The Municipality is in the process of appealing this debt since it understands that with the new pay-as-you-go model in which a new process was established to cover the contributions of qualified participants, will also be deducted owed contributions and any other debt that the Municipality has as on the effective date of this law.	7,112,808
<u>Landfill obligation</u> – represents the Municipality's estimate for the post closure costs related to its landfill.	7,503,640
Total other long-term debts	<u><u>\$ 50,962,173</u></u>

**COMMONWEALTH OF PUERTO RICO
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e. Note payable under Community Disaster Loan Program (CDL)

On May 17, 2018, the Community Disaster Loan Division, adhered to the Federal Emergency Administration (FEMA), approved for the Municipality a five (5) year promissory note for \$5,000,000, and 3% interest rate, in accordance with guidelines established in Section 417 of the Stafford Act and FEMA regulations in 44 CFR, under the major disaster declaration of September 20, 2017, for the territory of Puerto Rico (FEMA-DR-4339-PR). Proceeds from the loan would be used as revenue in support for the Municipality's regular operations.

However, on May 17, 2021, the approved loan by the Community Disaster Loan Division, was forgiven and will be reported as income.

f. Revenue Bond-Proprietary Fund

On December 19, 2013, the Municipality of Guaynabo entered a \$21,000,000 non-revolving line of credit with two financial institutions. The Credit Agreement was for the purpose of authorizing its promissory notes in anticipation of its Revenue Bonds of 2014. The proceeds of the non-revolving line of credit were for the construction and development of the "Avenida Conector Los Filtros" toll road ("the Project") that will connect highways PR-199 and PR-177 in the Municipality of Guaynabo.

On August 10, 2016, the Credit Agreement was amended to convert the non-revolving line of credit in Revenue Bonds not to exceed \$21,000,000 to repay the outstanding balance of up to \$20,000,000 of the Revenue Bonds Anticipation Notes described above, and to fund \$1,000,000 as Debt Service Reserve Fund, and pay the costs incurred by the Municipality in connection with the issuance of these bonds. This amendment was approved by the Municipal Legislature of the Municipality in the Ordinance No. 7, Series 2016-2018.

Pursuant to the provisions of the revenues bond indentures, the Municipality has pledge and assigned its right, title, and interest in all future revenues to be produced in the operation and maintenance of the Project. If such revenues to be produced in the Project are not sufficient to make all debt services payments of principal, interests and premium, if any, on the due dates, the Municipal Revenue Collection Center (known as "CRIM") will withhold from the monthly remittance of the income of the Municipality, the amounts necessary to make these payments, in accordance with Article 22(b) of the Law. The income committed for the payment of the bonds will be collected and deposited in a deposit account to be established by the Municipality with Banco Santander de Puerto Rico, the administrator agent.

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On June 30, 2021, bonds payables consist of:

2014 revenue bonds due on July 1, 2027, payable in ten annual installments of principal of \$100,000 to \$640,000 and a balloon payment of \$17,300,000 or the currently outstanding principal based on the Cash Sweep, the maximum of 75% of available cash after the payment of interest, toll transaction costs, capital expenditures and provision for toll violations. The minimum amount of the 11th installment shall be \$700,000. The bonds bears interest of 6.90% payable on the first day of each month.

The annual debt service requirements for the revenue bond payable and notes payable at June 30 ,2021, is as follows:

Year Ending June 30, 2021	Principal Payment	Interest Payment
2022	\$ 340,000	\$ 875,940
2023	400,000	762,372
2024	460,000	641,784
2025	520,000	513,708
2026	580,000	377,520
2027-28	17,863,152	311,844
	<u>\$ 20,163,152</u>	<u>\$ 3,483,168</u>

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**COMMONWEALTH OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

The following is a summary of changes in long-term debt of the Municipality for the year ended June 30, 2021:

<u>Governmental Activities</u>	<u>Beginning Balance June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Reclassification</u>	<u>Ending Balance June 30, 2021</u>	<u>Due within One Year</u>
Bonds payable	\$ 189,770,362	\$ -	\$ (16,704,000)	\$ -	\$ 173,066,362	\$ 17,113,000
Notes payable- Law 42	4,293,181	-	(123,245)	-	4,169,936	242,797
Notes payable- Law 146	1,516,495	-	(126,370)	-	1,390,125	126,375
Loan Guarantee 108	-	-	-	-	-	-
Total long-term debt	195,580,038	-	(16,953,615)	-	178,626,423	17,482,172
Net pension liability	301,066,600	-	(147,345,024)	-	153,721,576	-
Capital leases	10,080,091	-	(2,972,340)	-	7,107,751	-
Compensated absences	17,217,610	259,364	-	-	17,476,974	-
Landfill obligation	7,808,384	-	(304,744)	-	7,503,640	-
A.S.E.S.	2,704,203	-	(2,704,203)	-	-	-
Employees Retirement System	8,459,802	-	(8,459,802)	-	-	-
COFIM	3,597,313	-	(1,624,500)	-	1,972,813	-
Claims and judgements	2,743,667	-	(2,482,667)	-	261,000	-
Community Disaster Loan Program	5,000,000	-	(5,000,000)	-	-	-
CRIM	844,651	-	(844,651)	-	-	-
Total other liabilities	359,522,321	259,364	(171,737,931)	-	188,043,754	-
Total noncurrent liabilities	\$ 555,102,359	\$ 259,364	\$ (188,691,546)	\$ -	\$ 366,670,177	\$ 17,482,172
<u>Business-Type Activities</u>						
Revenue Bond Payable	\$ 20,443,152	\$ -	\$ (280,000)	\$ -	\$ 20,163,152	\$ -

16. EMPLOYEES RETIREMENT SYSTEM

The Fiscal Oversight Board for Puerto Rico (The Board) projected that the liquid assets of the ERS would be consumed during the fiscal year 2018-19. Due to this projected lack of liquidity in the Employees Retirement System ("ERS"), the government of the Commonwealth, in an attempt to guarantee and safeguard the payment of pensions to retirees adopted a new defined contribution plan denominated as the "Pay-Go System" (Pay-Go).

On August 23, 2017, Act No. 106, known as the "Law to Guarantee Payment to Our Pensioners" ("Act No. 106") was approved to establish a mechanism by which the general fund of the Commonwealth, through a "pay-as-you-go system", would assume the pension obligations of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico ("ERS"), the Teachers' Retirement System and Judiciary Retirement System.

Under the new pension system, the payments of the accumulated pensions will be disbursed, starting July 1, 2017, from the funds deposited in a trust held under the control of the Secretary of the Treasury of the Commonwealth but separated from the assets of the Commonwealth. The trust account will include the net proceeds of the liquidations of the net assets of the three retirement systems, and a "Pay-Go" charge imposed to the covered sponsoring employers. The disbursement of the benefits of all the pensioners will be guaranteed by the general fund of the Commonwealth.

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Prior to July 1, 2017, the retirement plans were administered as a trust and followed the guidance of GASB Statement No. 68. The establishment of the new pension system caused that participating employer of the ERS including the Municipality change their accounting for pensions from GASB Statement No. 68 to GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68".

Substantially, all full-time employees of the Municipality participate in the Employee's Retirement System of the Commonwealth of Puerto Rico and its instrumentalities (ERS). The Employee Retirement System is a statutory trust created by the Act No. 449 of May 15, 1951, as amended ("Act 447") and a component unit of the Commonwealth.

On June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") was enacted. PROMESA seeks to provide the Commonwealth and its covered instrumentalities with fiscal and economic discipline through among other things: (i) the establishment of an Oversight Board (ii) a temporary stay of all creditor lawsuits which expired on May 1, 2017, (iii) two alternative methods to adjust unsustainable debt (a) a voluntary debt modification process which establishes an out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U. S. Bankruptcy Code. Title III of PROMESA establishes an in-court process for restructuring debts of Puerto Rico that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code.

On September 30, 2016, the Fiscal Oversight Board for Puerto Rico (the Board) designed to the Government of the Commonwealth of Puerto Rico, the Employees' Retirement System (ERS) and other 21 public corporations as covered entities subject to fiscal supervision, in accordance with the *Puerto Rico Oversight, Management, and Economic Stability Act* (PROMESA Act).

Under Pay Go, the Government of the Commonwealth of Puerto Rico becomes responsible for paying the pension benefits to retirees. The Puerto Rico Treasury Department perform monthly billings to all governmental entities adhered to the Commonwealth, the public corporations and the municipalities of Puerto Rico, to cover pension benefits to retirees. The government of the Commonwealth of Puerto Rico determines and administers the monthly amounts required to be paid by each governmental entity. Amount billed is denominated as the "Pay-Go Charge".

The payments of "Pay-Go Charges" must be remitted to applicable special bank accounts with one commercial bank in Puerto Rico. In addition, the employer contributions to the ERS are eliminated and the source for the payments of "Pay-Go Charge" is a payroll withholding from employees of all governmental entities that are a participant of the ERS.

The most recent audited financial statements of the ERS were as of June 30, 2019, where the ERS was severely underfunded with a pension liability of approximately \$28.2 billion.

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The ERS has not issued its 2020 and 2021 basic financial statements, nor has it provided the Municipality with the required information to implement the requirements of GASB 73 as of June 30, 2020 and 2021. ERS has only provided the Municipality with its unaudited proportional share of the pension liability, deferred inflow of resources and deferred outflow of resources as of June 30, 2019. Therefore, the accompanying governmental activities financial statements have been adjusted to account for its proportionate share of the pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net position, using pension information as of June 30, 2019. Also, additional disclosures required by GASB 73 and 75, as well as required supplementary information has been omitted from the financial statements as information has not been provided by the ERS.

The Municipality disclosed the following information and amounts based on the unaudited actuarial valuation report as of June 30, 2019. At June 30, 2021, the Municipality reported a liability of \$153,721,576 for its proportionate share of the pension liability. The collective pension liability which amounts to \$28,026,444,581 was measured as of June 30, 2019. The total pension liability used to calculate the pension liability was determined by an actuarial valuation as of June 30, 2019 calculated based on a discount rate and actuarial assumptions.

For the year ended June 30, 2021, the Municipality recognized the effect of decrease in the pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. Also, at June 30, 2021, the Municipality reported in the Statement of Financial Position deferred inflows of resources related to pensions for \$10,213,936.

The \$7,112,808 of the Municipality's required contribution for fiscal year ended June 30, 2021 of Pay as you Go charge represents current year contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in future fiscal years based on the average expected remaining service lives of all plan participants or in the case of projected and actual investment earnings in a 5 year period. The detailed components of the deferred outflows of resources and deferred inflows of resources were not informed by ERS.

17. RISK MANAGEMENT

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

**COMMONWEALTH OF PUERTO RICO
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18. CAPITAL LEASES

The Municipality has the following capital leases:

a. Guaynabo Municipal Government Center

The Municipality has a lease with the option to purchase for the facilities of the Guaynabo Municipal Government Center Project ("the Project"). The lessor financed the construction of these facilities with a loan derived from the proceed for the sales of Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority Industrial Revenue Bonds, 1995 Series A of \$19,090,000. Pursuant to the lease agreement, the lessor leased the Project to the Municipality and the Municipality will make lease payments at such times and amounts as are sufficient to pay the principal and interest on the bonds when due plus and a supplemental lease payment to the lessor.

The term of this lease is commencing on January 1, 1998 and terminating upon the earlier of the following: July 1, 2022; such date as all basic lease payments and supplemental lease payments required hereunder shall have been paid or duly provided for; and such date as all proceeds derived from a foreclosure sale of the last remaining parcel of real property constituting a part of the Project Property under the Mortgage and the exercise by the Trustee of its remedies as the assignee of a secured party under applicable Commonwealth law have been applied by the Trustee to the payment, in a whole or in part, of the Bonds. Municipality has agreed to direct the Municipal Revenues Collection Center of the Commonwealth to pay on its behalf directly to the Banco Popular de Puerto Rico, the trustee, the basic lease payments, principal and interest, and the supplemental lease payment to the lessor on or before the date such payments are due. The Municipality made lease payments of approximately \$2,242,926 during the year ended June 30, 2021.

On July 1, 2022, at the option of the Municipality and in consideration of the basic lease payments, the supplemental lease payments, and an additional and final payment of one dollar (\$1.00) from the Municipality to the lessor, all right, title and interest in the Project Property shall be conveyed from the lessor to the Municipality.

b. Guaynabo Warehouse for Emergencies

The Municipality has a lease with the option to purchase for the facilities of the Guaynabo Warehouse for Emergencies Project ("the Warehouse Project"). The lessor financed the construction of these facilities with a loan derived from the proceed for the sales of Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority Industrial Revenue Bonds, 1998 Series A of \$13,215,000. Pursuant to the lease agreement, the lessor leased the Warehouse Project to the Municipality and the Municipality will make lease payments directly to the Trustee in amounts sufficient to pay the principal and interest on the bonds when due plus and a supplemental lease payment to the lessor. The term of this lease is commencing on September 1, 1999 and terminating upon the earlier of the following: July 1, 2024; such date as all basic lease payments and supplemental lease payments required hereunder shall have been paid or duly provided for; and such date as all

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proceeds derived from a foreclosure sale of the last remaining parcel of real property constituting a part of the Warehouse Project Property under the Mortgage and the exercise by the Trustee of its remedies as the assignee of a secured party under applicable Commonwealth law have been applied by the Trustee to the payment, in a whole or in part, of the Bonds. The Municipality made lease payments of approximately \$1,540,402 during the year ended June 30, 2021.

On July 1, 2024, at the option of the Municipality and in consideration of the basic lease payments, the supplemental lease payments, and an additional and final payment of one dollar (\$1.00) from the Municipality to the lessor, all right, title and interest in the Project Property shall be conveyed from the lessor to the Municipality.

These capital lease obligations are recorded as capital assets in the accompanying government-wide statement of net position. These lease agreements qualify as capital leases for financial reporting purposes and therefore have been recorded at the present value of their future minimum lease payments as of the respective inception dates.

The present value of the future minimum capital lease payments as of June 30, 2021, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2022	\$ 3,783,552
2023	1,729,186
2024	1,542,223
2025	<u>52,790</u>
Total minimum lease payments schedule under agreements	<u>7,107,751</u>
Less:	
Interests to be paid through expiration dates of lease agreements	<u>559,268</u>
Present value of minimum lease payments	6,548,483
Less: Current portion of obligation under capital leases	<u>2,090,256</u>
Long-term portion of obligation under capital leases	<u><u>\$ 4,458,227</u></u>

19. HEALTHCARE COSTS

On December 6, 2018, the Governor of the Commonwealth of Puerto Rico, signed the Act Number 253-2018, which amended the Administration of Health Insurance Act, to exempt the municipalities of Puerto Rico for their required shares of the cost of the Health Reform and to award a credit for their "Pay as you Go" contribution to the retirement system. Such exemption of healthcare cost is effective from July 1, 2018, to September 30, 2019.

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20. CONTINGENCIES

A. Federal and State Grants

The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such reviews and audits could generate expenditure disallowances under the terms of the grants, the Municipality's management believes that required reimbursements, if any, would not be material.

B. Litigations

The Municipality is, at present, a defendant in several legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or co-defendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. For cases not to be covered by insurance, the Municipality accrued as long-term debt \$261,000 as of June 30, 2021. It is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

C. Retirement System Debt

The Retirement System of the Commonwealth of Puerto Rico claims a debt to the Municipality corresponding to the additional uniform contribution for fiscal year 2016-17. The Municipality is in the process of appealing this debt since it understands that with the new pay-as-you-go model, as established by Law Number 106 of August 23, 2019 known as "law to guarantee the payment to our pensioners and establish a new plan of defined contributions for public employees", in which a new process was established to cover the contributions of qualified participants, will also be deducted owed contributions and any other debt that the Municipality has as on the effective date of this law. As June 30, 2021, the Municipality reported as due to other agencies with the amount of \$7,112,808 related to this claim.

21. LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Municipality adopted the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post closure Care Costs issued by the Governmental Accounting Standard Board*. This statement established standards for accounting and reporting for solid waste landfill costs owned by governmental entities (including the Municipality) that are required by federal and local laws or regulations to incur closure and post closure care costs.

The landfill ceased operation in March 2008. On July 15, 2008, the Municipality entered in an agreement with a contractor to initiate and complete the total closure of the Municipal Landfill in a four-year period for a cost of \$7,200,000. The work to close the facility was completed in November 2012.

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During fiscal year ended as of June 30, 2021, the Municipality incurred in landfill post-closing costs which approximates to \$350,000. The landfill obligation has been reduced to a total estimated current cost of \$7,503,640 as of June 30, 2021. These estimates are subject to adjustment for inflation or deflation and to account for any changes in landfill conditions, regulatory requirements, technologies, or cost estimates. The liability was recorded in the accompanying government-wide financial statements. For funds financial statements, expenditures are recognized using the modified accrual basis of accounting when the related liability is incurred, and the payment is due.

22. COMMITMENTS

a. Operating Leases

Leasing arrangements with the Municipality as Lessor:

- 1) The Municipality leases spaces in its Market Place, Transportation center, buildings and other real estate properties owned by the Municipality under operating lease agreements with terms ranging from one to fifty years.
- 2) Total income from leases during the fiscal year ended June 30, 2021, amounted to \$2,317,521.
- 3) The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Based on the lease arrangements in force at the end of the fiscal year, the minimum future lease revenues are as follows:

Years	Amount
2022	\$ 1,984,421
2023	1,907,193
2024	1,807,266
2025	1,485,481
2026-2030	6,985,686
2031-2035	6,081,866
2036-2040	5,316,865
2041-2045	5,143,658
2046-2050	5,143,658
2051-2055	5,143,658
2056-2058	8,872,812
Total	<u>\$ 49,872,564</u>

Leasing arrangements with the Municipality as lessee:

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Management believes that the summary of the future

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minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

b. Construction

The Municipality of Guaynabo had several outstanding or planned construction projects as of June 30, 2021. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$6.7 million.

23. COMPONENTS OF FUND BALANCES

	General	Debt Service	WIOA Funds	ARPA Fund	Other Governmental Funds	Total
Nonspendable:						
Cash in GDB	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Inventory	2,240,786	-	-	-	-	2,240,786
Restricted:						
Public safety	-	-	-	18,550,725	-	18,550,725
General government	-	-	-	-	-	-
Public housing and welfare	-	-	-	-	-	-
Culture and education	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Debt service	-	8,602,876	-	-	-	8,602,876
Committed:						
Public works	-	-	-	-	-	-
Assigned:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Culture	-	-	-	-	-	-
Public housing and welfare	-	-	-	-	-	-
Unassigned (deficit)	<u>15,793,466</u>	<u>-</u>	<u>(200,981)</u>	<u>-</u>	<u>-</u>	<u>15,592,485</u>
Total fund Balance	<u>\$ 18,034,252</u>	<u>\$ 8,602,876</u>	<u>\$ (200,981)</u>	<u>\$ 18,550,725</u>	<u>\$ -</u>	<u>\$ 44,986,872</u>

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24. NET INVESTMENT IN CAPITAL ASSETS

The investment in capital assets component of net position, net of related debt, is comprised of the following:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>
Capital assets, net of accumulated depreciation	\$ 1,109,040,761	\$ 18,631,282
Outstanding balance on capital assets related debt	(181,857,771)	(19,163,152)
Unspent capital proceeds	<u>27,335,562</u>	<u>300,438</u>
Investment in capital assets	<u><u>\$ 954,518,552</u></u>	<u><u>\$ (231,432)</u></u>

25. TAX ABATEMENTS

Pursuant to the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*, a tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the Municipality or its citizens.

The Municipality provides tax abatements by Ordinances approved by the Mayor and are authorized by the Municipal Legislature. Municipality enters into economic development incentive agreements with entities that propose to locate businesses within the Municipality, or expand businesses within the Municipality, which are expected to provide a stimulus to the Municipality's economy and tax base. Generally, the agreements provide for a rebate of taxes paid to the Municipality according to formulas contained in the agreements.

Also, the Commonwealth of Puerto Rico provides tax abatements in the Municipality through three programs— the Tax Incentives Act of 1998; Tax Incentives of 2008 and Act to Promote the Export of Services.

For the fiscal year ended June 30, 2021, the Municipality abated taxes by the concept of municipal licenses as follows:

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Programs Administered by the Municipality

Ordinance No. 97, Series 2001-2002- Purpose of the Program is to develop Municipality's commercial active and rehabilitate deteriorated urban areas. Taxes abated are Real and Personal Property Taxes and Volume of Business Taxes. Authority which abatement agreement are entered into is Law number 107 August 14, 2020, as amended, known as the Autonomous Municipality Act of the Commonwealth of Puerto Rico; Law 82 of August 30, 1991, known as Municipal Patents Law and Law Number 83 of August 30, 1991, as amended, known as the Municipality Property Tax Act. The criteria to be eligible to received abatement, the taxpayer will contribute to maintain, over 60 employees, and improve the economic stability of the industrial or commercial unit to be established or any other factor or circumstances that reasonably demonstrate that the concession of the tax incentives will result in the best socio - economic interest of the Municipality. Recipients' taxes are reduced by reduction on real and personal property taxes of 40% for 10 years. Volume of business taxes reduction of 40% for 10 years. How amount of abatement is determined by a direct reduction on Municipality's revenues is based on abatement percentage approved applied to certified properties values, taxpayer annual income and total investment in construction projects. Gross dollar amount, on accrual basis, by which the Municipality's volume of business taxes were reduced as a result of abatement agreement were \$395,927 for the fiscal year ended June 30, 2021.

Ordinance No. 50, Series 2013-2014- Purpose of the Program is to establish mechanism to incentive the Municipality's economic activity to promote stability and protection to Municipality's interests. Taxes abated are Real and Personal Property Taxes and Volume of Business Taxes. Authority which abatement agreement are entered into is Law number 107 August 14, 2020, as amended, known as the Autonomous Municipality Act of the Commonwealth of Puerto Rico; Law 82 of August 30, 1991, known as Municipal Patents Law and Law Number 83 of August 30, 1991, as amended, known as the Municipality Property Tax Act. The criteria to be eligible to received abatement, the taxpayer will conduct commercial activity in the Municipality. For medium business, should possess from 6 to 44 employees, gross annual sales from \$1 to \$10 million. And invest more than \$ 100,000 to keep operation activity. Big business should comply with no more than 45 employees, gross annual sale of more than \$ 10 million and invest with more than \$1 million to keep operation activity. Recipients' taxes are reduced by reduction on real and personal property taxes of 40% for 10 years. Volume of business taxes reduction of 40% for 10 years. How amount of abatement is determined by a direct reduction on Municipality's revenues is based on abatement percentage approved applied to certified properties values, taxpayer annual income and total investment in construction projects. Gross dollar amount, on accrual basis, by which the Municipality's volume of business taxes were reduced as a result of abatement agreement were \$210,925 for the fiscal year ended June 30, 2021.

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Ordinance No. 72, Series 2004-2005 - Purpose of the ordinance is to amend Ordinance No. 1, Series 2004-2005 in order to include the exemptions to be granted to other companies located nearby Cesar Castillo Inc., Inversiones Jose J. Castillo Inc., according to ordinance 97, Series 2001-2002. The abatement is to help the economic development of the pharmaceutical industry in the municipality. Taxes abate are Real and Personal Property Taxes and Volume of Business Taxes. The economic impact in our community that these companies will produce is 250 jobs, no less than \$180 Millions in Volume of Business that the companies generate, and the companies will hold an inventory of approximately \$30 million. The exemption granted is of 60% for a term of 7 years, alternative provided in Ordinance No. 34, Series 2002-2003. This exemption will prevail as long as Cesar Castillo Inc. and the companies nearby comply with the conditions established in Ordinance No. 97, Series 2001-2002, as amended by Ordinance 34, Series 2002-2003. How amount of abatement is determined by a direct reduction on Municipality's revenues is based on abatement percentage approved applied to certified properties values, taxpayer annual income and total investment in construction projects. Gross dollar amount, on accrual basis, by which the Municipality's volume of business taxes were reduced as a result of abatement agreement were \$208,784 for the fiscal year ended June 30, 2021.

Ordinance No. 44, Series 2016-2017- Purpose of the ordinance is to grant a tax incentive in the payment of municipal licenses equivalent to fifty percent (50%) at the current rate for municipal licenses for those entities or individuals that have a decree valid under Law No. 20-2012 as amended and for every resident individual investor that has the certification of compliance under Law No. 22-2012, as amended. This abatement is to promote the exportation of services and to incentivize the movement of individual investors to Puerto Rico. A business that is eligible to have a decree under Law No. 20 may have this incentive for the special rate for a period of 10 consecutive years. For this ordinance, the designated areas in the municipality for the application of these incentives are: Amelia Industrial Park, City View Plaza and Metro Office Park. How amount of abatement is determined by a direct reduction on Municipality's revenues is based on abatement percentage approved applied to certified properties values, taxpayer annual income and total investment in construction projects. Gross dollar amount, on accrual basis, by which the Municipality's volume of business taxes were reduced as a result of abatement agreement were \$133,852 for the fiscal year ended June 30, 2021.

Ordinance No. 4, Series 2017-2018- Purpose of this ordinance is to repeal Ordinance No. 50, Series 2013-2014; to establish a new program of tax benefits under the payment of certain municipality taxes for eligible units or businesses that establish themselves or are already established on the Municipality of Guaynabo; establish limitations, conditions, and requirements to apply and obtain said tax benefits. The eligible units or businesses are those whose operations and commercial activities are established in the municipality. The businesses participating of the decree will have an exemption of taxes over properties and real estate, during the first two (2) years will be an exemption of 30%, the next four (4) years an exemption of 40%, and during the next four (4) years, including those between the seventh and tenth year from the date of effectivity will enjoy an exemption of 60%.

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How amount of abatement is determined by a direct reduction on Municipality's revenues is based on abatement percentage approved applied to certified properties values, taxpayer annual income and total investment in construction projects. Gross dollar amount, on accrual basis, by which the Municipality's volume of business taxes were reduced as a result of abatement agreement were \$1,342 for the fiscal year ended June 30, 2021.

Programs Administered by the Puerto Rico Industrial Development

Tax Incentive Act of 1998 (Act Number 135 of December 2, 1997, as Amended) - Purpose of the Program is to stimulate the formation of local capital, promote development of the airport and maritime infrastructure, the development of strategic industries, small and medium industries, the establishment of regional offices and corporate headquarters and distribution centers in Puerto Rico, promote the creation of jobs and the development of human resources and development and distribution of technology in Puerto Rico. Taxes abated are Real and Personal Property Taxes and Volume of Business Taxes. Authority which abatement agreement are entered into is Law number 107 August 14, 2020, as amended, known as the Autonomous Municipality Act of the Commonwealth of Puerto Rico; Law 82 of August 30, 1991, known as Municipal Patents Law and Law Number 83 of August 30, 1991, as amended, known as the Municipality Property Tax Act. The criteria to be eligible to any industrial unit whose objectives is the production of the manufactured product on a commercial scale; any "bonafide" industrial unit that is established on a permanent basis to produce an article designated under this law; and any service unit that has as its objectives the provision on a commercial scale in Puerto Rico of some type of service designed for foreign markets, including markets in the United States. Volume of business taxes reduction of an annual rate on Real and Personal Property Taxes of 90%; Volume of Business Taxes of 60% to 100% of total amount; and 60% to 100% of Construction Excite Taxes during the decree period. The abatement is determined on a direct reduction on Municipality's revenues is based on abatement percentage approved applied to certified properties values, taxpayer annual income and total investment in construction projects. Gross dollar amount, on accrual basis, by which the Municipality's volume of business taxes were reduced as a result of abatement agreement were \$281,808 for the fiscal year ended June 30, 2021.

Tax Incentive Act of 1998 (Act Number 73 of May 28, 2008 as Amended)- Provide adequate environments and opportunities for the continued development of our local industry providing and attractive tax proposal that appeals to foreign direct investment and fosters the economic development and social betterment in Puerto Rico. Taxes abated are Real and Personal Property Taxes and Volume of Business Taxes. Authority which abatement agreement are entered into is Law number 107 August 14, 2020, as amended, known as the Autonomous Municipality Act of the Commonwealth of Puerto Rico; Law 82 of August 30, 1991, known as Municipal Patents Law and Law Number 83 of August 30, 1991, as amended, known as the Municipality Property Tax Act.

**COMMONWEALTH OF PUERTO RICO
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The criteria to be eligible to any industrial unit whose objectives is the production of the manufactured product on a commercial scale; any "bonafide" industrial unit that is established on a permanent basis to produce an article designated under this law; and any service unit that has as its objectives the provision on a commercial scale in Puerto Rico of some type of service designed for foreign markets, including markets in the United States Through a reduction of annual rate on Real and Personal Property Taxes of 90% to 100% up to 15 years; Volume of Business Taxes and Construction Excise Taxes of 60% of total amount for 15 years., 100% for industries dedicated to generation of energy using renewable sources for the first 5 years and then 60% for 15 years. The abatement is determined on a direct reduction on Municipality's revenues is based on abatement percentage approved applied to certified properties values, taxpayer annual income and total investment in construction projects. Gross dollar amount, on accrual basis, by which the Municipality's volume of business taxes were reduced as a result of abatement agreement were \$5,244,262 for the fiscal year ended June 30, 2021.

Act to promote the Export of Services (Act Number 20 of January 17, 2012 as Amended) - Purposes is to provide the adequate environment and opportunities to develop Puerto Rico as an international service center, encourage local professionals to stay and return, and attract foreign capital, thus promoting the economic and social betterment of Puerto Rico. Taxes abated are Real and Personal Property Taxes and Volume of Business Taxes. Law number 107 August 14, 2020, as amended, known as the Autonomous Municipality Act of the Commonwealth of Puerto Rico; Law 82 of August 30, 1991, known as Municipal Patents Law and Law Number 83 of August 30, 1991, as amended, known as the Municipality Property Tax Act. The criteria to be eligible is any entity with an office or bona fide establishment located in Puerto Rico which carries out or may carry out, eligible services that are, in turn, considered services for export or promoter services, shall be considered an eligible business. Annual rate on Real and Personal Property Taxes of 90% 20 years; Volume of Business Taxes of 60% of total amount for 20 years. Gross dollar amount, on accrual basis, by which the Municipality's volume of business taxes were reduced as a result of abatement agreement were \$1,403,268 for the fiscal year ended June 30, 2021.

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**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS
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26. SUBSEQUENT EVENTS

The Municipality has evaluated subsequent events through June 30, 2021, which is the date the financial statements were available to be issued. Management is not aware of any subsequent event that requires adjustment or disclosure in the financial statements or its related notes, except for the following:

On December 8, 2021, the Municipality's Major Hon. Ángel Pérez-Otero, was indicted by the United States of America Attorney for Alleged Conspiracy, Federal Funds Bribery and Kickbacks. Due to the indictment, the Major resigned to his charge and a new major was elected. It is the Municipality's management opinion that such alleged events occurred outside the Municipality's premises, and it did not involve any employee of the Municipality that they are aware of.

27. RESTATEMENT AND RECLASSIFICATION

The following table disclosed the net change in fund balances and net position at beginning of year as previously reported in the financial statements. The beginning balances have been restated and reclassified as follows:

Description	Governmental Activities	General Funds	Debt Service Funds	Other Funds
Beginning governmental activities/fund balances, as previously reported	\$ 643,001,668	\$ 44,083,237	\$ (21,822,546)	\$ 16,724,431
Understatement of net pension liability	147,345,024	-	-	-
Understatement of contribution to OPEB	(6,337,040)	-	-	-
Reclassification of cash	(1,749,511)	(33,793,554)	-	-
Reclassification of cash	-	-	31,177,155	10,264,580
Beginning governmental activities/fund balances, as restated	<u>\$ 782,260,141</u>	<u>\$ 10,289,683</u>	<u>\$ 9,354,609</u>	<u>\$ 26,989,011</u>

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Property Taxes	\$ 43,409,314	\$ 43,409,314	\$ 43,409,294	\$ (20)
Municipal License taxes	45,000,000	45,000,000	47,814,979	2,814,979
Sales and use taxes	14,400,000	14,400,000	16,753,504	2,353,504
Licenses and permits	3,500,000	3,500,000	4,204,863	704,863
Charges for services and rent	2,256,005	2,256,005	2,050,790	(205,215)
Intergovernmental revenues:	-	-	-	-
State contributions	7,396,424	7,396,424	7,396,424	-
Interest, fines, and penalties	2,310,000	2,310,000	2,182,512	(127,488)
Other Revenues	10,098,263	10,098,263	3,641,591	(6,456,672)
Total revenues	<u>128,370,006</u>	<u>128,370,006</u>	<u>127,453,957</u>	<u>(916,049)</u>
EXPENDITURES				
Current:				
General Government	83,573,755	83,299,003	72,894,681	10,404,322
Public Safety	10,240,904	10,062,440	9,684,652	377,788
Culture and Education	2,414,564	2,098,923	1,665,675	433,248
Health and Sanitation	31,853,001	32,621,203	30,747,410	1,873,793
Economic Development	287,782	288,437	288,338	99
Total expenditures	<u>128,370,006</u>	<u>128,370,006</u>	<u>115,280,756</u>	<u>13,089,250</u>
Excess of expenditures over revenues	<u>-</u>	<u>-</u>	<u>12,173,201</u>	<u>(14,005,299)</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule			\$ 127,453,957	
Net change in receivables			309,655	
Non-budgeted revenues			<u>18,550,725</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances			<u>\$ 146,314,337</u>	
Uses/Outflow of resources:				
Actual amounts (budgetary basis) "Total changes to appropriations" from the budgetary comparison schedule			\$ 115,280,756	
Prior year encumbrances recorded as current year expenditures for GAAP basis			3,464,076	
Net changes in payables			(14,869,762)	
Current year encumbrances recorded as expenditures for budgetary purposes			<u>4,174,539</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances			<u>\$ 108,049,609</u>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

a. Budgetary Control

The Municipality prepares its annual budget for all of its operations and activities. Such legally adopted budget is based on expected expenditures by the program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 13.

The Municipal Legislature has 10 business days, but not later than June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it. If the budgets are not adopted prior to the end of the deadlines refined to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budget may be updated for any estimate revisions as well as fiscal year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature. The Municipality's Department of Finance and the Office of Management and budget have the responsibility to ensure that budgetary spending control is maintained. For day-to-day management

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs and among funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the functions/program level (general government, public safety, urban affairs, culture and recreation, health and welfare, urban development, economic development, education, and capital outlays) within the general fund. Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year unless the imposition of taxes enough to cover said appropriations is provided.

b. Budgetary Accounting

The Municipality's annual budget is prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP. According to the budgetary basis of accounting, revenue is generally recorded when cash is received, except in the case of municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as revenue in the following budget year. Borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment.

Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying supplemental budgetary comparison schedule - general fund provides information about the general fund's original budget, its amendments, and the actual results of operations of the general fund under the budgetary basis of accounting for the ensuing fiscal year. At June 30, 2021, the Municipality has outstanding encumbrances in the general fund amounting to \$13 million.

**SUPPLEMENTARY INFORMATION REQUIRED BY
THE U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
FINANCIAL DATA SCHEDULE -RQ-016
SECTION 8 HOUSING CHOCIE VOUCHERS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2021**

Balance Sheet		
<u>Line Item Number</u>	<u>Description</u>	<u>Amount</u>
Assets		
111	Cash - unrestricted	\$ 671,511
113	Cash - other restricted	230,167
100	Total cash	901,678
Liabilities and Equity		
312	Account payable	-
310	Total current liabilities	-
300	Total liabilities	-
400	Deferred inflow of resources	-
Equity		
509.3	Restricted Fund Balance	230,167
512.3	Unassigned Fund Balance	671,511
513	Total equity - net position	901,678
600	Total liabilities and equity	\$ 901,678

See notes to Financial Data Schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
FINANCIAL DATA SCHEDULE -RQ-016
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2021**

Income Statement

<u>Line Item Number</u>	<u>Description</u>	<u>Amount</u>
Revenues		
70600	HUD PHA operating grants	\$ 2,070,345
71400	Fraud recovery	9,163
71500	Other revenue	451
70000	Total revenues	<u>2,079,959</u>
Expenses		
	<i>Administrative:</i>	
91100	Administrative salaries	49,498
91500	Employee benefit contributions	10,306
91900	Other	-
91000	Total operating - administrative	<u>59,804</u>
	<i>Tenant services:</i>	
92100	Tenant services - Salaries	-
92500	Total tenant services	<u>-</u>
	<i>General Expenses:</i>	
96200	Other general expenses	111,889
92500	Total general expenses	<u>111,889</u>
97300	Housing assistance payments	1,791,351
90000	Total expenses	<u>1,963,044</u>
10000	<i>Excess (deficiency) of total revenues over (under) total expenses</i>	<u>\$ 116,915</u>

See notes to Financial Data Schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
FINANCIAL DATA SCHEDULE -RQ-016
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2021**

Memo Account Information

11170	Administrative fee equity	\$ 671,511
11180	Housing assistance payments equity	\$ 230,167
11190	Unit months available	4,596
11210	Number of unit months leased	3,372

See notes to Financial Data Schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO SUPPLEMENTARY INFORMATION
FINANCIAL DATA SCHEDULE
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule ("FDS") is a trial balance of the financial statements of the Section 8 Housing Choice Voucher Program administered by the Municipality of Guaynabo. The FDS was created in order to standardize the financial information reported ("REAC"), as required by the Uniform Financial Reporting Standards ("UFRS"). REAC is the US Department of Housing and Urban Development ("HUD") national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD. Because the FDS presents only a selected portion of the operations of Municipality, it is not intended to, and does not present, the financial position and changes in the net position of the Municipality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements and is prepared using the accrual basis of accounting.

SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Grant Number	Passed-Through to Subrecipient	Federal Disbursements/ Expenditures
U.S. Department of Housing and Urban Development (HUD)				
Section 8 Housing Choice Vouchers	14.871 MP			\$ 1,960,251
Community Development Block Grant Program/Entitlement Grants	14.218 MP			1,162,707
HOME Investment Partnership Program	14.239			49,333
Pass-through Municipality of San Juan: Housing Opportunity for Persons with AIDS	14.241			30,557
Subtotal U.S. Department of HUD				3,202,848
U.S. Department of Health and Human Services (HHS)				
Head Start	93.600 MP			8,284,748
Early Head Start	93.600 MP			1,295,596
Head Start Disaster Assistance	93.356			
Pass-through the Puerto Rico Elderly Commission: Special Programs for Aging Title III, Part C, Nutrition Services	93.045			640,429
Nutrition Services Incentive Program	93.053			
Subtotal U.S. Department of HHS				10,220,773
U.S. Department of Agriculture				
Pass-through Puerto Rico Department of Education Child and Adult Care Food Program	10.558			457,901
Subtotal U.S. Department of Agriculture				457,901
U.S. Department of Labor				
Pass-through Puerto Rico Department of Economic Development and Commerce WIOA				
Adult	17.258 MP			1,554,530
Youth Activities	17.259 MP			1,466,959
Dislocated Workers	17.278 MP			1,638,308
Subtotal U.S. Department of Labor				4,659,797
U.S. Department of Homeland Security				
Pass-through Governor's Authorized Representative Federal Emergency Management Agency	97.036	FEMA-4339-DR-PR	061-99061-00	626,203
Subtotal U.S. Department of Homeland Security				626,203
U.S. Department of Transportation				
Pass-through P.R. Traffic Safety Commission Guaynabo Community Traffic Safety Program	20.600			42,537
Subtotal U.S. Department of Transportation				42,537
U.S. Department of Energy				
Pass-through Puerto Rico Administration of Energy Affairs: Energy Efficiency and Conservation Block Grant Program	81.128			
Subtotal U.S. Department of Energy				
U.S. Department of Justice				
Justice Forfeiture Program	N/AV	PR0070100		799
Victims of Crime Assistance	16.575			63,820
Federal Bureau of Investigation TOC West Task Force San Juan Public Safety Partnership and Community Policing Grants	16.710			95,863
Subtotal U.S. Department of Justice				160,482
U.S. Department of the Treasury				
Coronavirus Relief Fund (CARES Act Assistance Program - pass-through the Puerto Rico Office of Management and Budget (Transfer Program for Municipalities))	21.019 MP			3,396,952
Subtotal U.S. Department Treasury				3,396,952
TOTAL				\$ 22,767,493

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

1. SIGNIFICANT ACCOUNTING POLICIES

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

2. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The expenditures of the schedule are included in the Municipality's basic financial statements within the other nonmajor governmental funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Federal expenditures per basic financial statements
included within:

Federal expenditures included in other governmental funds	\$ 17,481,493
General Fund	626,203
Workforce Innovation and Opportunity Act Programs	<u>4,659,797</u>
	<u><u>\$ 22,767,493</u></u>

3. INDIRECT COST RATE

The Municipality did not elect to use the ten (10) percent of the minimum indirect cost rate allowed under the Uniform Guidance.

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

**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**

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Autonomous Municipality of Guaynabo (the Municipality), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated June 27, 2022. Our report on the basic financial statements includes a qualified opinion on Governmental Activities.

Basis for Qualified Opinion on Governmental Activities -

GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68" and GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)":

The net pension liability and deferred outflows/inflows of resources in governmental activities of the government-wide statement of net position, and pension expense for the current period charge in that liability in governmental activities of the government-wide statement of activities were derived from the application of the proportional share provided by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) and the Cost-Sharing Multiple-Employer pension plan audited financial information as of June 30, 2019. The ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2021 nor has provided to the Municipality the required information to record transactions related to pension as of and for the fiscal year ended June 30, 2021. The net pension liability and deferred outflows/inflows of resources represent 33% and 2% of the total liabilities and deferred outflows/inflows of resources, respectively, as of June 30, 2021, while pension expense represents 3% of total expenses for the fiscal year then ended. The Retirement System Administration (ERS) did not provide the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2021. As a result, management was not able to determine the accurate amount to be reported.

In addition, the ERS has not provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2021, as required by GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (OPEB). The schedules provided to the Municipality covered the measurement period from July 1, 2018 to June 30, 2019. The OPEB represents 11% of the total liabilities of the Municipality while OPEB expense represents 0.3% of the total expenses of the Municipality.

**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 (CONTINUED)**

Internal Control over Financial Reporting -

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting 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 the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item **2021 - 001 and - 002** to be a material weakness.

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.

Compliance and Other Matters -

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

The Municipality's Response to Findings -

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

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 (CONTINUED)

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 Municipality'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 Municipality's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, Puerto Rico
June 27, 2022

Stamp No. E497056 was affixed to the
original of the report.

Rodriguez Sanabria & Co., CPAs, PSC

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Report on Compliance for Each Major Federal Program -

We have audited the Autonomous Municipality of Guaynabo (the Municipality) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2021. The Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility -

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

Auditors' Responsibility -

Our responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality'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 the Municipality's compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(CONTINUED)**

Opinion on Each of the Other Major Federal Program -

In our opinion, the Municipality 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, 2021.

Report on Internal Control Over Compliance -

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to in the first paragraph of this report. In planning and performing our audit of compliance, we considered the Municipality'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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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 and therefore, material weaknesses or significant deficiencies may exist that were not 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

San Juan, Puerto Rico
June 27, 2022

Stamp No. E497057 was affixed to the
original of this report.

Rodriguez Sanabria & Co., CPAs, PSC

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Section I - Summary of Auditors' Results

Financial statements:

	<u>Opinion</u>
Governmental Activities	Qualified
Business - Type Activities	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
Workforce Innovation and Opportunity Act Grants Fund	Unmodified
ARPA Funds	Unmodified
Other Governmental Remaining Funds	Unmodified

Internal control over financial reporting:

• Material weakness (es) identified?	<u>X</u>	Yes	<u> </u>	No
• Significant deficiency (es) identified?	<u> </u>	Yes	<u>X</u>	No
Noncompliance material to financial statements noted?	<u>X</u>	Yes	<u> </u>	No

Federal awards:

Internal control over major programs:

• Material weakness (es) identified?	<u> </u>	Yes	<u>X</u>	No
• Significant deficiency (es) identified?	<u> </u>	Yes	<u>X</u>	No

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

	<u>Unmodified</u>
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?

	Yes	<u>X</u>	No
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Identification of major programs:

Name of Federal Program:

	<u>CFDA</u>
Section 8 Housing Choice Vouchers	14.871
Community Development Block Grants	14.218
Head Start and Early Head Start	93.600
Workforce Innovation and Opportunity Act Cluster:	
Adult	17.258
Youth	17.259
Dislocated	17.278
Coronavirus Relief Fund	21.019

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

	<u>\$750,000</u>
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Auditee qualified as low-risk auditee?

	<u>No</u>
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**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Section II - Financial Statements Findings

Finding 2021 – 001

Requirement: Financial Reporting - GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68"

Type of finding: Material Weakness

Condition: The net pension liability and deferred outflows/inflows of resources in governmental activities of the government-wide statement of net position, and pension expense for the current period charge in that liability in governmental activities of the government-wide statement of activities were derived from the application of the proportional share provided by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) and the Cost-Sharing Multiple-Employer pension plan audited financial information as of June 30, 2019. The ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2021 nor has provided to the Municipality the required information to record transactions related to pension as of and for the fiscal year ended June 30, 2021.

The net pension liability and deferred outflows/inflows of resources represent 34% and 2% of the total liabilities and deferred outflows/inflows of resources, respectively, as of June 30, 2021, while pension expense represents 3% of total expenses for the fiscal year then ended. The ERS did not provide the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2021. As a result, management was not able to determine the accurate amount to be reported.

Criteria: GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68 comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its total pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date.

It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the total pension liability and the reporting of historical pension data as Required Supplementary Information.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Section II - Financial Statements Findings

Finding 2021 - 001 (Continued)

Cause:	The ERS has not provided the Municipality the financial and technical information necessary for the implementation of GASB Statement 73 as of June 30, 2021.
Effect of condition:	The Municipality's Government - Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality for the fiscal year ended June 30, 2021.
Recommendation:	We recommend the Municipality maintains a constant communication with the ERS to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73. In the event the ERS do not provide such information, the Municipality may contract an external actuary to perform such analysis.
Prior year finding:	This finding was presented in prior year Schedule of Findings and Questioned Costs (2020-001).
Views of responsible officials and planned corrective action:	See the Municipality's Corrective Action Plan.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Finding 2021 – 002

Requirement:	Financial Reporting - GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"
Type of finding:	Material Weakness
Condition:	The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) has not provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2021, as required by GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (OPEB). The schedules provided to the Municipality covered the measurement period from July 1, 2018 to June 30, 2019. The OPEB represents 1% of the total liabilities of the Municipality while OPEB expense represents 0.3% of the total expenses of the Municipality.
Criteria:	GASB Statement No. 75 requires the liability of employers and non-employer contributing entities to employees for defined benefit OPEB to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the OPEB plan's fiduciary net position. This Statement requires that projections of benefit payments incorporate the effects of projected salary changes and service credits, as well as projected automatic postemployment benefit changes. This Statement also requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on the benefit payments.
Cause:	The ERS has not provided the Municipality the financial and technical information necessary for the implementation of GASB Statement 75 as of June 30, 2021.
Effect of condition:	The Municipality's Government - Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality for the fiscal year ended June 30, 2021.
Recommendation:	We recommend the Municipality maintains a constant communication with the ERS to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 75. In the event the ERS do not provide such information, the Municipality may contract an external actuary to perform such analysis.
Prior year finding:	This finding was presented in prior year Schedule of Findings and Questioned Costs (2020-001).
Views of responsible officials and planned corrective action:	See the Municipality's Corrective Action Plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF *PRIOR YEAR* AUDIT FINDINGS (2020)
YEAR ENDED JUNE 30, 2021

Finding number:	2020-001: Financial Reporting - GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68" and GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)"
Condition:	<p>The net pension liability and deferred outflows/inflows of resources in governmental activities of the government-wide statement of net position, and pension expense for the current period charge in that liability in governmental activities of the government-wide statement of activities were derived from the application of the proportional share provided by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico and the Cost-Sharing Multiple-Employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, and pension expenses of the governmental activities and the information disclosed in the notes of the pension plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosures were necessary. The Retirement System Administration (ERS) did not provide the financial and technical information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2020. As a result, management was not able to determine the accurate amount to be reported. In addition, the ERS has not provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2020, as required by GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". As a result, amounts to be reported as deferred outflows \ inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information as of June 30, 2020, has been omitted.</p>
Criteria:	<p>GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB Statement No. 68 comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its total pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the total pension liability and the reporting of historical pension data as Required Supplementary Information. Also, GASB Statement No. 75 states standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It also requires detailed disclosures related to the actuarial and financial information used in the calculation.</p>
Cause:	<p>The Retirement System Administration has not provided the Municipality the financial and technical information necessary for the implementation of GASB Statement 73 and GASB Statement No. 75 as of June 30, 2020.</p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF *PRIOR YEAR* AUDIT FINDINGS (2020) (CONTINUED)
YEAR ENDED JUNE 30, 2021**

Finding 2020 - 001 (Continued)

Effect of condition:	The Municipality's Government - Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality for the fiscal year ended June 30, 2020. Also, the required supplementary information has been omitted.
Recommendation:	We recommend the Municipality maintains a constant communication with the Retirement System Administration (ERS), in order to obtain the necessary financial and technical information to implement the requirements of the GASB Statements No. 73 and 75. In the event the ERS do not provide such information, the Municipality may contract an external actuary to perform such analysis.
Management response and Corrective Action Plan	The Municipality is aware of the condition, although it has been in continuous communication with the Employee's Retirement System of the Government of Puerto Rico (ERS), but the issue cannot be handled by the Municipality because it is not allowed to contract an actuarial consultant to perform an evaluation of the Municipality's portion of the retirement pension plan. Thus, the Municipality have to wait until the ERS submit the updated actuarial report.
Current status:	Partially corrected, see Findings 2021-001 and 2021-002.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2021**


COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
Phone: (787)-720-4040

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2021
Fiscal Year: 2020-2021

Audit Report: 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

Audit Period: July 1, 2020 – June 30, 2021

Principal Executive & Contact Person: Ms. Ivette Baez, Finance Director

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
<p>2021-001</p> <p>Financial Reporting - GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68"</p>	<p>We concur with the finding.</p>	<p>The Municipality is aware of the condition, although it has been in continuous communication with the Employee's Retirement System of the Government of Puerto Rico (ERS), but the issue cannot be handled by the Municipality because it is not allowed to contract an actuarial consultant to perform an evaluation of the Municipality's portion of the retirement pension plan. Thus, the Municipality must wait until the ERS submit the updated actuarial report.</p> <p>Implementation Date: Unknown.</p> <p>Responsible Individuals:</p> <p>Ms. Ivette Báez Finance Director</p> 

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

JUNE 27, 2022


COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
Phone: (787)-720-4040

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2021
Fiscal Year: 2020-2021

Audit Report: 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

Audit Period: July 1, 2020 – June 30, 2021

Principal Executive & Contact Person: Ms. Ivette Baez, Finance Director

Original Finding Number	Statement of Concurrence or Non concurrence	Corrective Action
2021-002 Financial Reporting - GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	We concur with the finding.	<p>The Municipality is aware of the condition, although it has been in continuous communication with the Employee's Retirement System of the Government of Puerto Rico (ERS), but the issue cannot be handled by the Municipality because it is not allowed to contract an actuarial consultant to perform an evaluation of the Municipality's portion of the retirement pension plan. Thus, the Municipality must wait until the ERS submit the updated actuarial report.</p> <p>Implementation Date: Unknown.</p> <p>Responsible Individuals: Ms. Ivette Baez Finance Director</p> 

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

JUNE 27, 2022

END OF REPORT