

**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 ENDED JUNE 30, 2025**



**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

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AUTONOMOUS MUNICIPALITY OF GUAYNABO
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type 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, 2025, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Municipality and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Municipality's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Municipality's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-16, schedule of changes in total pension liability related ratios on page 102, schedule of changes in total other post-employment benefits liability and related ratios on page 103 and budgetary comparison information be presented to supplement the basic financial statements on pages 99-101. Such information is the responsibility of management and, 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.

Supplementary 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 Financial Data Schedule, as required by U.S. Department of Housing and Urban Development, on pages 105 through 108 and the Schedule of Expenditure of Federal Awards on pages 110 through 111 as required by as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirement, Cost Principles and Audit Requirements for Federal Awards, and they are not a required part of the basic financial statements.

The accompanying Financial Data Schedule and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the Financial Data Schedule and the Schedule of Expenditure of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2026 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 solely 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 effectiveness of the Municipality’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality’s internal control over financial reporting and compliance.

Carolina, Puerto Rico
March 24, 2026

Aquino, De Córdova, LLC
by Eduardo González-Green
Lic. # 3171



DLLC422-919
Autonomous Municipality of Guaynabo

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

MANAGEMENT DISCUSSION AND ANALYSIS

The management of the Autonomous Municipality of Guaynabo (the "Municipality") financial performance provides an overall review of the Municipality for the fiscal year ended June 30, 2025. The intent of this management discussion and analysis MD&A is to look at the Municipality's financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows this section.

This MD&A is prepared to comply and, among other purposes, to provide the financial statements users with the following major information:

- Assist the reader in focusing significant financial issues.
- Provide an overview of the Municipality's financial activities.
- Identify changes in the Municipality's financial position (its ability to address the next and subsequent year changes).
- Identify any material deviations from the financial plan (the approved budget)
- Identify individual funds 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.

FINANCIAL HIGHLIGHTS

- The Municipality's assets exceeded its liabilities on June 30, 2025 by \$1,106,646,066 compared to an excess of assets over liabilities of \$1,053,587,623 at June 30, 2024.
- The Municipality net position increased by \$53,058,443.
- The Municipality's governmental funds reported a combined ending fund balance of \$254,839,316 an increase of \$27,569,712 as compared to prior year.
- The statement of net position presented an unrestricted net position of \$67,336,183
- The Municipality's capital assets inventory increased \$11,864,276 mostly as a result of the depreciation expense for the year offset by capital assets additions. Capital assets (net of accumulated depreciation) and net position invested in capital assets (net of related debt) as of June 30, 2025 were \$965,664,563.
- Capital expenditures amounted to \$29,470,415.

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 MD&A as an introduction to the Municipality's basic financial statements.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

This narrative represents an overview and analysis of the financial statements of the Municipality as of and for the fiscal year ended June 30, 2025. 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.

GOVERNMENT-WIDE-FINANCIAL STATEMENT

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assists the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2025 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statement of net position and (2) the statement of activities.

Statement of Net Position

The purpose of the statement of net position is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports all its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and improvements as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports compensated absences even though this liability might not be paid until several fiscal years into the future. The difference between the Municipality's total assets and total liabilities reported in the statement of net position is presented as net position, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net position, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

Statement of Activities

The statement of activities presents information showing how the Municipality's net position changed during the fiscal year ended June 30, 2025, by presenting all the Municipality's revenues and expenses. As previously discussed, the items reported in the statement of activities are measured in a similar manner to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although the statement of activities looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as net change in net position, which is essentially the same concept.

The focus of the statement of activities is on the net cost of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

FUND FINANCIAL STATEMENTS

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

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

The fund financial statements 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

Governmental Funds Financial Statements

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 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.

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 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 fund operated by the Municipality is the revenue bond resulting for the operation of the "Los Filtros" Toll System.

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.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB Statement No. 34 requires that these assets be valued and reported within the governmental column of the government-wide 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

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AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates 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. The Municipality has elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

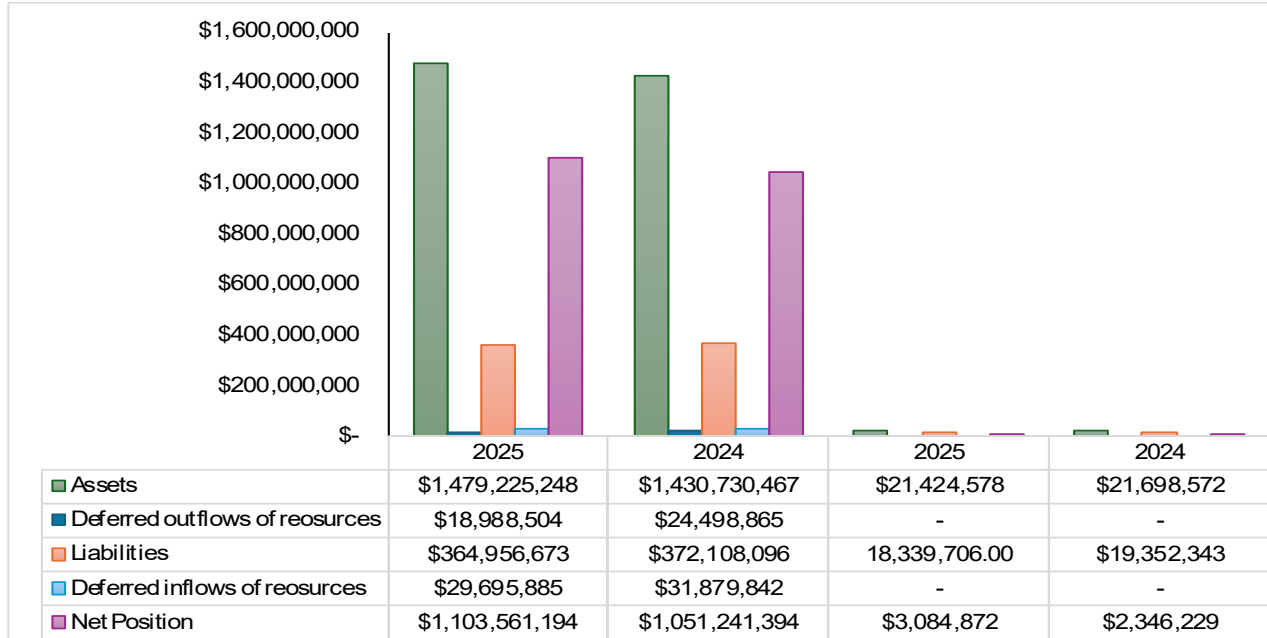
As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by \$1,101,690,409 on June 30, 2025.

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

**Municipality of Guaynabo
Condensed Statement of Position
June 30, 2025 and 2024**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2025	2024, as restated	2025	2024	2025	2024, as restated
Current and other assets	\$ 403,875,930	\$ 367,625,382	\$ 4,353,410	\$ 4,247,447	\$ 408,229,340	\$ 371,872,829
Capital assets	1,075,349,318	1,063,105,085	17,071,168	17,451,125	1,092,420,486	1,080,556,210
Total assets	<u>1,479,225,248</u>	<u>1,430,730,467</u>	<u>21,424,578</u>	<u>21,698,572</u>	<u>1,500,649,826</u>	<u>1,452,429,039</u>
Deferred outflows of resources	18,988,504	24,498,865	-	-	18,988,504	24,498,865
Current and other liabilities	109,814,156	99,670,516	1,791,929	1,434,202	111,606,085	101,104,718
Long-term liabilities	255,142,517	272,437,580	16,547,777	17,918,141	271,690,294	290,355,721
Total liabilities	<u>364,956,673</u>	<u>372,108,096</u>	<u>18,339,706</u>	<u>19,352,343</u>	<u>383,296,379</u>	<u>391,460,439</u>
Deferred inflows of resources	29,695,885	31,879,842	-	-	29,695,885	31,879,842
Invested in capital assets, net of related debt	965,905,872	938,958,721	523,391	(467,016)	966,429,263	938,491,705
Restricted for debt service	48,056,209	39,693,587	-	-	48,056,209	39,693,587
Restricted for other purposes	24,824,411	16,973,595	-	-	24,824,411	16,973,595
Unrestricted	64,774,702	55,615,491	2,561,481	2,813,245	67,336,183	58,428,736
Total net position	<u>\$ 1,103,561,194</u>	<u>\$ 1,051,241,394</u>	<u>\$ 3,084,872</u>	<u>\$ 2,346,229</u>	<u>\$ 1,106,646,066</u>	<u>\$ 1,053,587,623</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**



Changes in Net Position

The Municipality's net position increased by \$53,058,443. Approximately 15% percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 68% percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government and public works.

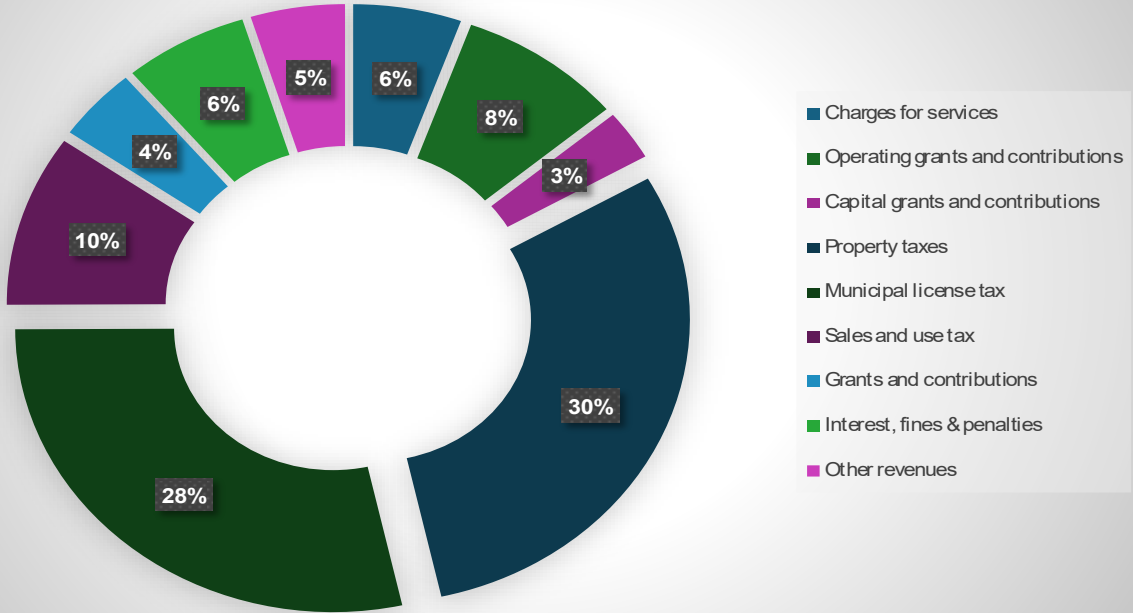
**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

Municipality of Guaynabo
Condensed Statements of Activities
June 30, 2025 and 2024

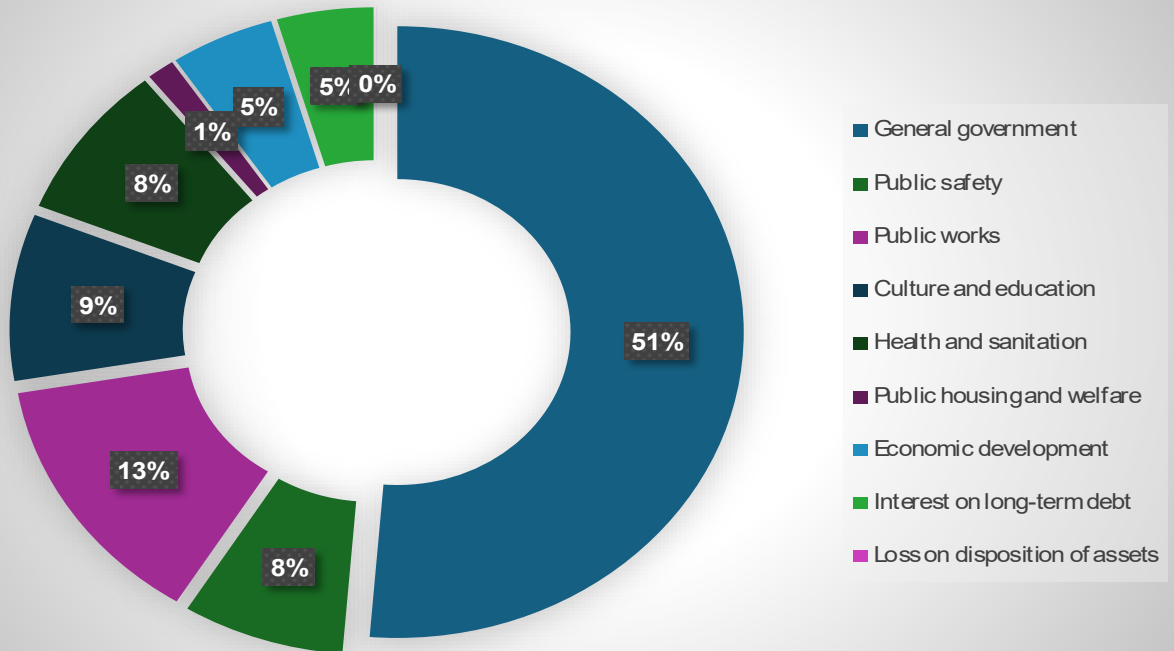
	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
Program revenues						
Charges for services	\$ 13,715,045	\$ 15,380,221	\$ 2,554,778	\$ 2,702,719	\$ 16,269,823	\$ 18,082,940
Operating grants and contributions	20,831,983	52,705,843	-	-	20,831,983	52,705,843
Capital grants and contributions	7,089,720	-	-	-	7,089,720	-
General revenues						
Property taxes	74,126,585	77,748,805	-	-	74,126,585	77,748,805
Municipal license tax	70,807,610	68,689,355	-	-	70,807,610	68,689,355
Sales and use tax	24,342,328	24,956,403	-	-	24,342,328	24,956,403
Grants and contributions not restricted to specific programs	10,369,877	9,018,285	-	-	10,369,877	9,018,285
Interest, fines and penalties	15,739,756	10,407,514	87,083	112,684	15,826,839	10,520,198
Other revenues	11,938,133	37,320,900	-	-	11,938,133	37,320,900
Total revenues	248,961,037	296,227,326	2,641,861	2,815,403	251,602,898	299,042,729
Expenses						
General government	100,827,196	65,523,796	737,684	493,995	101,564,880	66,017,791
Public safety	14,886,576	14,557,086	-	-	14,886,576	14,557,086
Public work	26,452,523	8,298,104	-	-	26,452,523	8,298,104
Culture and education	17,325,735	12,232,931	-	-	17,325,735	12,232,931
Health and sanitation	16,194,619	44,726,281	-	-	16,194,619	44,726,281
Public housing and welfare	2,537,972	2,375,916	-	-	2,537,972	2,375,916
Economic development	9,556,202	8,531,480	-	-	9,556,202	8,531,480
Interest on long-term debt	8,852,168	11,111,206	1,165,534	1,264,480	10,017,702	12,375,686
Loss on disposition of assets	8,246	91,330	-	-	8,246	91,330
Total expenses	196,641,237	167,448,130	1,903,218	1,758,475	198,544,455	169,206,605
Change in net position	52,319,800	128,779,196	738,643	1,056,928	53,058,443	129,836,124
Net position, beginning of year as restated	1,051,241,394	922,462,198	2,346,229	1,289,301	1,053,587,623	923,751,499
Net position, end of year	\$ 1,103,561,194	\$ 1,051,241,394	\$ 3,084,872	\$ 2,346,229	\$ 1,106,646,066	\$ 1,053,587,623

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

REVENUES 2025



Expenses 2025



**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$254,839,316, an increase of \$27,569,712 in comparison with the prior year. There are reservations of fund balance. The fund balance that is not available for new spending because it has already been restricted to pay debt service amounted to \$48,056,209. The general fund is included within the governmental funds; it is the operating fund of the Municipality. As of June 30, 2025 the general fund has a balance of \$168,100,414.

General Fund – The general fund revenues increased by \$.5 million mainly due to a decrease in approximately \$2 million related to property taxes, decreased of \$3.2 million in other revenues and increase in interest revenue of \$5 million. The expenditure increased by approximately \$11.6 million in comparison from the prior year. The category with the mayor increase was General Government with \$10.5 million.

Debt Service Fund – Revenues from debt service fund decreased by approximately \$1.8 million. The fund's expenditure decreased by approximately \$3.6 million caused by a decrease in the debt service principal and interest payments.

WIOA Fund – Revenues and expenditures from the WIOA fund increased by approximately \$386,289 thousand from federal grants appropriations.

Proprietary Fund – The Municipality's proprietary fund provides the same type of information found in the Government-Wide Financial Statements but in more detail. Revenues increase by \$174 thousand. The expenditure increased for \$145 thousand for the maintenance and operation of the toll.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the basic financial statements for the General Fund. The budgetary comparison schedule shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results. Following table summarizes the results of the budgetary comparison schedule:

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance Favorable</u>
Total resources	\$ 136,629,987	\$ 164,552,332	\$ 27,922,345
Reprogramming funds	18,000,000	18,000,000	-
Total charge to appropriations	<u>(154,629,987)</u>	<u>(151,780,357)</u>	<u>2,849,630</u>
Excess or deficiency	<u>\$ -</u>	<u>\$ 30,771,975</u>	<u>\$ 30,771,975</u>

The total actual resources (budgetary basis) for the fiscal year ended June 30, 2025, were \$164,552,332, which is \$30,771,975 more than the budgeted resources. In addition, the total actual charges to appropriations (budgetary basis) for the fiscal year ended June 30, 2025, were \$151,780,357, which is \$2,849,630 less than the budgeted charges to appropriations. Also, from prior year they reprogrammed \$18,000,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2025, amounts to \$1,442,807,182, net of accumulated depreciation of \$350,386,696, leaving a net book value of \$1,092,420,486. 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.

Actual expenditures for acquisition of capital assets were \$29,470,415 for the year. Depreciation charges for the year totaled \$17,597,893.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

	Total	
	2025	2024 as restated
Capital assets, not being depreciated:		
Land	\$ 691,707,613	\$ 687,297,613
Construction in progress	20,471,893	5,248,965
Non-depreciable assets	3,681,855	3,681,855
Total capital assets, not being depreciated	715,861,361	696,228,433
Capital assets, net of depreciation:		
Building and building improvements	205,632,862	212,397,143
Vehicles and equipment	23,658,678	19,508,441
Lease equipment	915,813	1,197,602
Subscription assets	891,371	1,148,949
Infrastructure	145,460,401	150,075,642
Total capital assets, net of depreciation	376,559,125	384,327,777
Total capital assets	\$ 1,092,420,486	\$ 1,080,556,210

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 in order 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 each municipality's Special Additional Tax (as defined below), as projected by AAFAF, 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 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 moneys on deposit in the Municipality's 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.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

Long-Term Debt

At year-end, the Municipality had \$111,311,002 in general and special bonds and notes and other long-term debts. Such amount represents a decrease of 12% percent with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2025 and 2024:

**Municipality of Guaynabo
Outstanding Long-Term Debt
June 30, 2025 and 2024**

	<u>2025</u>	<u>2024, as restated</u>	<u>Change</u>
General and special obligations	\$109,443,446	\$123,236,362	\$ (13,792,916)
Other long-term debts:			
Subscription liability	912,305	1,165,726	(253,421)
Leases liability	955,251	2,129,346	(1,174,095)
Total	<u>\$111,311,002</u>	<u>\$126,531,434</u>	<u>\$ (15,220,432)</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues charges for services, as well as state grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues. All these factors were considered in preparing the Municipality's budget for the 2026 fiscal year.

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. If you have any questions concerning any of the information provided in this report or requests for additional information, contact the Municipality Finance Department at (787) 720-4040.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
STATEMENT OF NET POSITION
JUNE 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Primary Government
Assets			
Cash and Investments (Notes 2 and 4)	\$ 304,841,148	\$ 4,353,410	\$ 309,194,558
Cash with fiscal agent	62,493,308	-	62,493,308
Accounts receivable:			
Sales and use taxes (Note 7)	1,776,895	-	1,776,895
Municipal license taxes (Note 6)	658,217	-	658,217
Rent, licenses, and permits	202,671	-	202,671
Leases (Note 8)	28,749,337	-	28,749,337
Due from other agencies (Note 9)	2,498,787	-	2,498,787
Inventories (Note 2)	2,655,567	-	2,655,567
Capital assets:			
Land, construction in progress and other non-depreciable assets (Note 11)	715,096,661	764,700	715,861,361
Other assets, net of accumulated depreciation (Note 11)	360,252,657	16,306,468	376,559,125
Total assets	<u>1,479,225,248</u>	<u>21,424,578</u>	<u>1,500,649,826</u>
Deferred Outflows of Resources (Notes 2 and 14)			
Pension related	18,988,504	-	18,988,504
Total deferred outflows of resources	<u>18,988,504</u>	<u>-</u>	<u>18,988,504</u>
Liabilities			
Accounts payable and accrued liabilities	19,684,901	24,310	19,709,211
Accrued interest payable	4,231,398	-	4,231,398
Due to other agencies (Note 12)	29,811,206	1,767,619	31,578,825
Unearned revenues:			
Municipal license taxes	56,086,651	-	56,086,651
Noncurrent liabilities (Note 16) :			
Due within one year	37,200,097	580,000	37,780,097
Due in more than one year	217,942,420	15,967,777	233,910,197
Total liabilities	<u>364,956,673</u>	<u>18,339,706</u>	<u>383,296,379</u>
Deferred Inflows of Resources			
Leases related	24,797,548	-	24,797,548
Intergovernmental grants and contributions	897,910	-	897,910
Pension related	4,000,427	-	4,000,427
Total deferred inflows of resources	<u>29,695,885</u>	<u>-</u>	<u>29,695,885</u>
Net Position			
Net investment in capital assets	965,905,872	523,391	966,429,263
Restricted for:			
Debt service	48,056,209	-	48,056,209
Other purposes	24,824,411	-	24,824,411
Unrestricted	64,774,702	2,561,481	67,336,183
Total net position	<u>\$ 1,103,561,194</u>	<u>\$ 3,084,872</u>	<u>\$ 1,106,646,066</u>

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Primary Government:							
General government	\$ 100,827,196	\$ 13,715,045	\$ -		\$ (87,112,151)	\$ -	\$ (87,112,151)
Public safety	14,886,576	-	357,008		(14,529,568)	-	(14,529,568)
Public works	26,452,523	-	-	7,089,720	(19,362,803)	-	(19,362,803)
Culture, recreation and education	17,325,735	-	12,617,418		(4,708,317)	-	(4,708,317)
Health and sanitation	16,194,619	-	128,970		(16,065,649)	-	(16,065,649)
Public Housing	2,537,972	-	2,689,497		151,525	-	151,525
Economic development	9,556,202	-	5,039,090		(4,517,112)	-	(4,517,112)
Interest on long-term debt	8,852,168	-	-		(8,852,168)	-	(8,852,168)
Total Governmental Activities	<u>196,632,991</u>	<u>13,715,045</u>	<u>20,831,983</u>	<u>\$ 7,089,720</u>	<u>(154,996,243)</u>	<u>-</u>	<u>(154,996,243)</u>
Business-Type Activities:							
Los Filtros Toll	\$ 1,903,218	\$ 2,554,778	-	-	-	\$ 651,560	\$ 651,560
Total primary government	<u>\$ 198,536,209</u>	<u>\$ 16,269,823</u>	<u>\$ 20,831,983</u>	<u>\$ 7,089,720</u>	<u>\$ (154,996,243)</u>	<u>\$ 651,560</u>	<u>\$ (154,344,683)</u>
General revenues:							
Property taxes (Note 5)					74,126,585	-	74,126,585
Municipal license taxes (Note 6)					70,807,610	-	70,807,610
Sales and use taxes (Note 7)					24,342,328	-	24,342,328
Grants and contributions not restricted to specific programs					10,369,877	-	10,369,877
Interest, fines, and penalties					15,739,756	-	15,739,756
Other revenues					11,938,133	\$ 87,083	12,025,216
Total general revenues					207,324,289	87,083	207,411,372
Other items:							
Loss on disposition of assets					(8,246)	-	(8,246)
Total general revenues and other items					207,316,043	87,083	207,403,126
Change in net position					52,319,800	738,643	53,058,443
Net position at beginning of year (as restated)					1,051,241,394	2,346,229	1,053,587,623
Net position at end of year					<u>\$ 1,103,561,194</u>	<u>\$ 3,084,872</u>	<u>\$ 1,106,646,066</u>

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2025**

<u>Assets</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>WIOA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and investments (Notes 2 and 4)	\$ 254,585,236	\$ 1,233,174	\$ 4,523	\$ 49,018,215	\$ 304,841,148
Cash with fiscal agent		62,493,308			62,493,308
Accounts receivable:					
Municipal license taxes (Note 6)	658,217	-	-	-	658,217
Sales taxes (Note 7)	1,776,895	-	-	-	1,776,895
Rent, licenses, and permits	202,671	-	-	-	202,671
Leases (Note 8)	28,749,337	-	-	-	28,749,337
Due from other agencies (Note 9)	-	2,088,125	410,662	-	2,498,787
Due from other funds (Note 10)	3,582,737	-	-	560,746	4,143,483
Inventories (Note 2)	2,655,567	-	-	-	2,655,567
	<u>\$ 292,210,660</u>	<u>\$ 65,814,607</u>	<u>\$ 415,185</u>	<u>\$ 49,578,961</u>	<u>\$ 408,019,413</u>
Total assets					

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2025**

<u>Liabilities and Fund Balances</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>WIOA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities					
Account payable and accrued liabilities	\$ 12,854,095	\$ -	\$ 323,343	\$ 6,507,463	\$ 19,684,901
Due to other funds (Note 10)	560,746	-	91,842	3,490,895	4,143,483
Due to other agencies (Note 12)	29,811,206	-	-	-	29,811,206
General obligations:					
Bonds	-	13,527,000	-	-	13,527,000
Interest	-	4,231,398	-	-	4,231,398
Unearned revenue: (Note 13)					
Municipal licenses taxes	56,086,651	-	-	-	56,086,651
Total liabilities	<u>99,312,698</u>	<u>17,758,398</u>	<u>415,185</u>	<u>9,998,358</u>	<u>127,484,639</u>
Deferred Inflows of Resources					
Lease related (Note 8)	24,797,548	-	-	-	24,797,548
Intergovernmental grants and contributions	-	-	-	897,910	897,910
Total deferred inflows of resources	<u>24,797,548</u>	<u>-</u>	<u>-</u>	<u>897,910</u>	<u>25,695,458</u>
Fund Balances (Notes 2 and 22)					
Reserved for:					
Nonspendable	2,655,567	-	-	-	2,655,567
Restricted	-	48,056,209	-	24,824,411	72,880,620
Committed	12,099,929	-	-	17,299,652	29,399,581
Assigned	101,826,345	-	-	595,441	102,421,786
Unassigned	51,518,573	-	-	(4,036,811)	47,481,762
Total fund balances	<u>168,100,414</u>	<u>48,056,209</u>	<u>-</u>	<u>38,682,693</u>	<u>254,839,316</u>
Total liabilities and fund balances	<u>\$ 292,210,660</u>	<u>\$ 65,814,607</u>	<u>\$ 415,185</u>	<u>\$ 49,578,961</u>	<u>\$ 408,019,413</u>

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2025**

Total fund balances - governmental funds \$ 254,839,316

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. 1,075,349,318
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 3)** (241,615,517)
- Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore are not reported in the governmental funds, as follows:

Deferred outflows of resources	18,988,504
Deferred inflows of resources	<u>(4,000,427)</u>

Net position of governmental activities **\$ 1,103,561,194**

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

	General Fund	Debt Service Fund	WIOA Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes (Note 5)	\$ 44,192,593	\$ 30,037,136	\$ -	\$ -	\$ 74,229,729
Municipal license taxes (Note 6)	70,807,610	-	-	-	70,807,610
Sales taxes (Note 7)	20,271,537	4,070,791	-	-	24,342,328
Construction excise, licenses, and permits	9,002,184	-	-	-	9,002,184
Charges for service and rents	4,712,861	-	-	-	4,712,861
Grants and entitlements					
Federal grants and contributions	-	-	4,916,590	23,005,113	27,921,703
State contributions	9,937,254	-	256,749	175,874	10,369,877
Interest, fines, and penalties	15,308,559	35,572	-	431,197	15,775,328
Other revenues	11,888,967	-	-	13,594	11,902,561
Total revenues	<u>186,121,565</u>	<u>34,143,499</u>	<u>5,173,339</u>	<u>23,625,778</u>	<u>249,064,181</u>
EXPENDITURES					
Current:					
General government	101,777,747	-	-	18,832	101,796,579
Public safety	14,417,209	-	-	236,618	14,653,827
Public work	28,857,145	-	-	8,542,252	37,399,397
Culture, education, and recreation	2,439,451	-	-	14,645,071	17,084,522
Health and sanitation	15,631,938	-	-	454,864	16,086,802
Economic development	76,844	-	5,173,339	4,306,019	9,556,202
Public housing	-	-	-	2,537,972	2,537,972
Debt service:					
Principal retirement	-	13,527,000	-	-	13,527,000
Interest and other	-	8,852,168	-	-	8,852,168
Total expenditures	<u>163,200,334</u>	<u>22,379,168</u>	<u>5,173,339</u>	<u>30,741,628</u>	<u>221,494,469</u>
Excess of (deficiency) revenues (under) over expenditures	<u>22,921,231</u>	<u>11,764,331</u>	<u>-</u>	<u>(7,115,850)</u>	<u>27,569,712</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	2,544,497	52,790	-	-	2,597,287
Transfers out	(52,790)	(2,544,497)	-	-	(2,597,287)
Total other financing sources (uses)	<u>2,491,707</u>	<u>(2,491,707)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>25,412,938</u>	<u>9,272,624</u>	<u>-</u>	<u>(7,115,850)</u>	<u>27,569,712</u>
FUND BALANCE AT BEGINNING, AS RESTATED	<u>142,687,476</u>	<u>38,783,585</u>	<u>-</u>	<u>45,798,543</u>	<u>227,269,604</u>
FUND BALANCE AT END OF YEAR	<u>\$ 168,100,414</u>	<u>\$ 48,056,209</u>	<u>\$ -</u>	<u>\$ 38,682,693</u>	<u>\$ 254,839,316</u>

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS 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 FISCAL YEAR ENDED JUNE 30, 2025**

Net change in fund balances - total governmental funds	\$ 27,569,712
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.	29,470,415
• 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.	(17,217,936)
• 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.	13,527,000
• In the statements of activities, only the loss on disposition of assets is reported, whereas in governmental funds, the proceeds from sales increase financial resources. Thus, the change in net asset book value of the asset sold.	(8,246)
• Revenues reported in funds which are not reported as revenues in the statement of activities for Municipal Revenue Collection Center.	(103,144)
• Decrease in deferred outflows of resources related to pension liability decrease net position, but is not reported in the funds.	(5,510,361)
• Decrease in deferred inflows of resources related to pension liability increase net position, but is not reported in the funds.	2,000,215
• Some (expenses) revenues 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	
Lease liability	264,093
Suscription obligation	253,421
OPEB liability	406,973
Landfill obligation	359,190
Christmas Bonus	(2,718,098)
CRIM	(869,136)
Claims and judgements	(700,743)
Compensated absences	(1,873,611)
Pension liability	7,470,056
	2,592,145
Changes in net position of governmental activities	\$ 52,319,800

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2025**

	Los Filtros Toll
<u>Assets</u>	
Current assets:	
Restricted cash in commercial banks (Notes 2 and 4)	\$ 4,353,410
Non-current assets:	
Capital assets, net (Note 11)	17,071,168
Total assets	21,424,578
<u>Liabilities and Net Position</u>	
Current liabilities:	
Accounts payable	24,310
Due to agencies	1,767,619
Total current liabilities	1,791,929
Non-current liabilities:	
Due within one year	580,000
Due in more than one year	15,967,777
Total non-current liabilities	16,547,777
Total liabilities	18,339,706
Net Position	
Net investment in capital assets	523,391
Unrestricted	2,561,481
Total net position	\$ 3,084,872

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

	<u>Los Filtros Toll</u>
OPERATING REVENUES	
Charges for services	\$ 2,554,778
Total operating revenues	<u>2,554,778</u>
OPERATING EXPENSES	
General, administrative and maintenance	<u>737,684</u>
Total operating expenses	<u>737,684</u>
Operating income	1,817,094
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	87,083
Interest expenses	<u>(1,165,534)</u>
Total non-operating expenses, net	<u>(1,078,451)</u>
CHANGE IN NET POSITION	<u>738,643</u>
TOTAL NET POSITION, BEGINNING	<u>2,346,229</u>
TOTAL NET POSITION, ENDING	<u>\$ 3,084,872</u>

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

	<u>Los Filtros Toll</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 2,554,778
Cash provided by operating activities	<u>2,554,778</u>
CAH FLOWS FROM INVESTING ACTIVITIES	
Cash provided by investing activities	<u>87,083</u>
	<u>87,083</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment of principal bond payable	(1,370,364)
Payment of interest of bond payable	<u>(1,165,535)</u>
Cash used in capital related and related financing activities	<u>(2,535,899)</u>
INCREASE IN CASH	105,963
CASH AT BEGINNING OF YEAR	<u>4,247,447</u>
CASH AT THE END OF YEAR	<u>\$ 4,353,410</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,817,094
Adjustments to reconcile change in net position to net cash provided in operating activities:	
Depreciation expense	379,957
Increase in due to agencies	<u>357,727</u>
Net cash provided by operating activities	<u>\$ 2,554,778</u>

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

1. ORGANIZATION

The Autonomous 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 nonprofit corporation or a for-profit corporation.

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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.
- 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 of 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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

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.
- 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 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. The 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.

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- 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 revenue.
- Government-Wide Financial Statements - The government-wide 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 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 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-

**COMMONWEALTH OF PUERTO RICO
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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 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 (the only business-type activity) are included here.

▪ **Governmental Fund Financial Statements -**

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, 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.

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- 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.

- Other Governmental Funds

Other Governmental Funds are used to account for all other transactions for other purposes.

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, revenues are 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 is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies 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 funds statements. Unearned revenues arise when (1) resources received in

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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 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 funds financial statements (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 FFS.

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.

- Proprietary Fund – 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 when are paid. Proprietary fund 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 principal operating revenues of the Proprietary fund 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. Operating expenses for the funds include the cost of operations and maintenance, administration and depreciation on capital assets. All revenues and expenses not meeting this definition are

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reported as non-operating revenues and expenses. The proprietary fund financial 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 fund consists of one enterprise fund. 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 fund:

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.

- Notes to Financial Statements – The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.
- 3) Required Supplementary Information (RSI) – The required supplementary information consists of the budgetary comparison schedule – General Fund., the schedule of changes in total pension liability and the schedule of changes in total other post-employment benefits liability.

c. Budgetary Accounting

The Municipality's annual budgets are 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. Short-term and long-term 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

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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.

d. Cash and Investments

The Municipality's deposits are composed of cash on hand, demand deposits and cash equivalents in: (1) commercial banks, (2) the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), who is statutorily designated as fiscal agent of the Municipality, and (3) the Municipal Revenue Collection Center (CRIM), a governmental entity responsible for the imposition and collection of property taxes on behalf of all municipalities of Puerto Rico. FAFAA was created for the purpose of acting as fiscal agent, financial advisor and reporting agent of the Government of Puerto Rico, its agencies, instrumentalities, subdivisions, public corporations and municipalities, and to assist such entities in confronting the grave fiscal and economic emergency that Puerto Rico is currently experiencing. FAFAA has assumed most of the fiscal agency and financial advisory responsibilities that were previously held by the Government Development Bank for Puerto Rico (GBD).

The Finance Director of the Municipality is responsible for investing the available resources in certificate of deposit and other short-term investments. Investments are certificates deposits made from the available funds of the Municipality.

Interest earned on certificates of deposit and other-short investments are recognized as revenue in the General Fund in accordance with the amount invested. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Investments are Certificate of Deposits, which are reported at fair value, any interest generated is recognized.

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 Commonwealth, but not in the Municipality's name.

Cash with fiscal agent in the Debt Service Fund, represents property and sales taxes collections retained for the payment of principal and interests of the Municipality debt, which are maintained in cash custodian accounts in a commercial bank in Puerto Rico.

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The sinking fund is maintained by the FAFFA and CRIM, agencies which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

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.

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 at June 30, 2025 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. Other costs incurred for repairs and maintenance are

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expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated usefully lives:

	Useful Life
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

The amortization expenses related to Lease Equipment was determined using straight-line method over the remaining contract lease term, or the estimated useful lives of the assets whichever is shorter.

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

i. Deferred Outflows/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.

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.

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j. Unearned Revenues

In the governmental fund financial statements, unearned revenue arises when one of the following situations occur:

- 1) Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (reported as “*earned and unavailable revenue*” in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) on June 30, 2025 and collected within 90 days thereafter to pay obligations due on June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for unearned revenue is removed and revenue is recognized.
- 2) The Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

k. Long-term 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.

l. Net Position

In the government-wide 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:

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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.

m. 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.

n. 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:

- 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.

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- 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, 2025.

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.

o. 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.

p. 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 approximately \$2.6 million for workers' compensation insurance covering all municipal employees.

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

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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 sufficient 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.

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.

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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, 2025.

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 observability of 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, 2025, 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, 2025. 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.

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

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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, 2025 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, 2025.

r. Landfill Closure and Postclosure Care Costs

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

According to GASB 18, the estimated liability for solid waste landfill closure and postclosure care costs (including monitoring and maintenance) include 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 postclosure 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.

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s. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year. The Municipality has implemented Statement No.101 and concluded that a restatement of prior period is not practical. The Municipality has concluded that there are inconsequential differences between the current fiscal year and the prior fiscal year liabilities for compensated absences, therefore, the beginning net position for fiscal year ended June 30, 2024 has not been restated by the immaterial cumulative effect. As result of the GASB No. 101 adoption, the Municipality liabilities for compensated absences have not been restated.

t. 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.

u. 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.

v. 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

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financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

w. Pensions

Effective on July 1, 2017, the Municipality and other participants of the ERS converted to a new “PayGo” model. Under the “PayGo” funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. “PayGo” payments are recorded as expenditures\expenses in the financial statements. At that date, the Municipality’s pension costs accounting transitioned from **GASB Statement No. 68** to the requirements of **GASB Statement No. 73** “*Accounting and Financial Reporting For Pensions and Related Assets That Are Not Within The Scope of GASB No. 68*”. Accordingly, pension costs are reported based on the employer total pension liability, pension expense and deferred outflows/inflows of resources reported by the ERS. For purposes of measuring, pension costs have all been determined on the same basis as they are reported by the ERS.

x. Accounting for Other Postemployment Benefits (“OPEB”)

GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions is effective for the Municipality starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has provided unaudited Schedule of Employer Allocations and Schedule of OPEB amounts by Employer as of June 30, 2025 basic financial statements, nor has it provided to the Municipality with the required audited information to implement the referred accounting pronouncement. The Municipality’s contribution for OPEB is included as part of the “PayGo” charges billed on a monthly basis by the Puerto Rico Department of Treasury (“PRDT”). “PayGo” payments are recorded as expenditures\expenses in the financial statements.

y. Subscription-based Information Technology Arrangements (SBITAs)

The Municipality has a policy to recognize a subscription liability and a right-to-use subscription asset (subscription asset) in the financial statements. Variable payments based on future performance of the Municipality, usage of the underlying Information Technology (IT) asset, or number of user seats are not included in the measurement of the subscription liability, rather, those variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments is incurred. At the commencement of a SBITA, the Municipality initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription

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payments made. Subscription assets are recorded at the amount of the initial measurement of the subscription liabilities, less any payments made to the SBITA vendor before the commencement of the subscription term, and capitalizable initial implementation cost, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

- Preliminary Project Stage: Outlays are expensed as incurred.
- Initial Implementation Stage: Outlays are capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage: Outlays are expensed as incurred unless they meet specific capitalization criteria.

Upon adoption, the Municipality elected to exclude the capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage that were incurred prior to the implementation of this Statement in the measurement of subscription assets as of July 1, 2022. Subscription assets are reported in capital assets and subscription liabilities are reported with long-term liabilities on the statement of net position. Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the Municipality has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset. Key estimates and judgments related to SBITA include how the Municipality determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments. The Municipality uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the Municipality generally uses its estimated incremental borrowing rate as the discount rate for SBITA. The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the Municipality is reasonably certain to exercise.

GASB No. 96, on June 30, 2025, the accompanying statement of net position reported intangible subscription assets amounting to \$901,371 within capital assets net of amortization. In addition, the corresponding subscription liability amounting also to \$912,305 has been reported within other long-term obligations.

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z. Leases

- **Lease Liability**

At the commencement of a lease, the Municipality initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

- **Right of Use Lease Assets**

Right of use assets are representative of the Municipality's right to use an asset over the life of a lease in which it is the lessee. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received. Right of use assets are amortized over the shorter of the asset useful life or the term of the lease.

- **Lease Receivable**

The Municipality is a lessor for a noncancellable lease of office space. The Municipality has recognized a lease receivable and a deferred inflow of resources in the government-wide and governmental fund of the Municipality.

At the commencement of the lease, the Municipality initially measured the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources was initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

aa. Future Adoption of Accounting Pronouncements

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

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
103	Financial Reporting Model Improvements	2025-2026
104	Disclosure of Certain Capital Assets	2026-2027
105	Subsequent Events	2026-2027

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

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$241.6 millions difference are as follows:

Bonds payable	\$ 95,916,446
Pension liability	108,335,404
Compensated absences	20,552,979
Landfill obligation	6,150,411
OPEB liability	4,504,744
CRIM	869,136
Christmas bonus	2,718,098
Claims and judgments	700,743
Subscription liability	912,305
Lease liability	<u>955,251</u>
Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	<u><u>\$ 241,615,517</u></u>

4. CASH, CASH EQUIVALENTS AND INVESTMENTS IN COMMERCIAL BANKS

The Municipality maintains its deposits in a commercial bank located in Puerto Rico, the Puerto Rico Fiscal Agency and Financial Advisory Authority (FAFAA), who is statutorily designated as fiscal agent of the Municipality and the Municipal Revenue Collection Center (CRIM), a governmental entity responsible for the imposition and collection of property taxes on behalf of all municipalities of Puerto Rico.

The FAFAA was created for the purpose of acting as fiscal agent, financial advisor and reporting agent of the Government of Puerto Rico, its agencies, instrumentalities, subdivisions, public corporation and municipalities, and to assist such entities in confronting the grave fiscal and economic emergency that Puerto Rico is currently experiencing. The FAFAA has assumed the majority of the fiscal agency and financial advisory responsibilities that were previously held by the Government Development Bank for Puerto Rico (GDB).

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The Municipality follows the provisions of GASB Accounting Standards Codification Section C20, Cash Deposit with Financial Institutions, related with cash deposit contracts with financial institutions. Following is essential information about: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial credit risk policy, the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit and commercial paper. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. 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 on June 30, 2025.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investments portfolio on June 30, 2025, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its bank’s deposits in interest bearing accounts generating interest at prevailing market rates. On June 30, 2025, the interest rate risk associated with the Municipality’s cash and cash equivalent is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality’s deposits may not be recovered. Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality’s name by the agents of the Commonwealth’s Secretary of Treasury. It is management’s policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk. On June 30, 2025, the bank balances of deposits were follows:

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	Deposits Balance				Total
	General Fund	Debt Services Fund	WIOA Fund	Other Governmental	
Deposits in commercial banks	\$ 164,547,975	\$ 1,233,174	\$ 11,453	\$ 34,031,713	\$ 199,824,315
Cash with fiscal agent	-	62,493,308	-	-	62,493,308
Investment-Short Term	92,699,097	-	-	15,052,870	107,751,967
	\$ 257,247,072	\$ 63,726,482	\$ 11,453	\$ 49,084,583	\$ 370,069,590

Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality’s deposits is considered low on June 30, 2025.

5. PROPERTY TAXES

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

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

	Real	Personal
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 tax payers	(0.20%)	(0.20%)
	10.08%	8.08%

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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 actually 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, 2025, the amount advanced by CRIM exceeded the amount collected by CRIM from the taxpayers for the same period by \$869,136. Such amount is presented as long-term debts in the accompanying financial statements. (See note 16).

6. 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 on June 30, 2025. 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.

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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	=	1.5%
Other organizations	=	0.5%

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 \$56.1 million, corresponding to the next fiscal year municipal license.

7. 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 ten 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 Act, (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 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.

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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.

8. LEASE RECEIVABLE

The Municipality has ongoing lease and sublease agreements with third parties to rental building spaces and land owned or leased by the Municipality. The Municipality has approximately 40 leases, most which were entered into with 2 to 35 years terms.

A summary of the Municipality's activity surrounding leases receivable as of and for the year ending June 30, 2025, is as follows:

Description	General Fund
Lease revenue	\$ 250,575
Interest revenue	1,694,419
Lease receivable	28,749,337
Deferred inflows of resources	24,797,548

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Future minimum rents under non-cancelable operating General Fund leases to be received as of June 30, 2025, is as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 421,343	1,426,548	\$ 1,847,891
2027	393,646	1,406,140	1,799,786
2028	280,105	1,388,846	1,668,951
2029	144,625	1,378,334	1,522,959
2030	(155,767)	1,350,884	1,195,117
2031-2035	2,039,385	6,786,640	8,826,025
2036-2040	3,840,832	5,956,606	9,797,438
2041-2045	4,929,164	4,865,917	9,795,081
2046-2050	6,325,885	3,473,022	9,798,907
2051-2055	8,031,487	1,686,730	9,718,217
2056-2060	2,498,632	89,413	2,588,045
Total	\$ 28,749,337	\$ 29,809,080	\$ 58,558,417

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

WIOA Fund

Puerto Rico Department of Economic Development and Commerce \$ 410,662

Debt Service Fund

Puerto Rico Department of Justice 2,088,125

Total due from other agencies \$2,498,787

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10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

<u>Due from</u>	Due to			
	General Fund	WIOA Fund	Other Governmental Fund	Total Governmental Fund
General fund	\$ -	\$ 91,842	\$ 3,490,895	\$ 3,582,737
Other Governmental funds	560,746	-	-	560,746
	\$560,746	\$ 91,842	\$ 3,490,895	\$ 4,143,483

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

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2025 consisted of the following:

Transfer In	Transfer Out	Amount
General Fund	Debt Service Fund	\$ 2,544,497
Debt Service Fund	General Fund	52,790
		\$ 2,597,287

Transfer from debt service to the general fund for excess funds on IVU Municipal Redemption Fund – Sales and Use taxes for \$2,597,287.

Transfer of \$52,790 from general fund to Debt service to cover payments and interest of capital leases.

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11. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2025 was as follows:

a. Governmental Activities

	Balance 7/1/2024, as restated	Increases	Decreases	Balance June 30, 2025
Capital assets, not being depreciated:				
Land	\$ 686,532,913	\$ 4,410,000	\$ -	\$ 690,942,913
Construction in progress	5,248,965	15,222,928	-	20,471,893
Non-Depreciable assets	3,681,855	-	-	3,681,855
Total capital assets, not being depreciated	<u>695,463,733</u>	<u>19,632,928</u>	<u>-</u>	<u>715,096,661</u>
Capital assets, being depreciated:				
Building and building improvements	404,957,757	165,000	-	405,122,757
Vehicles and equipment	83,279,931	9,145,996	5,005,815	87,420,112
Right of use lease assets	1,408,943	-	-	1,408,943
Subscription assets.	2,426,292	526,491	-	2,952,783
Infrastructure	211,043,398	-	-	211,043,398
Total cost of capital assets, being depreciated	<u>703,116,321</u>	<u>9,837,487</u>	<u>5,005,815</u>	<u>707,947,993</u>
Less accumulated depreciation for:				
Building and building improvements	192,560,614	6,929,281	-	199,489,895
Vehicles and equipment	63,771,490	4,987,513	4,997,569	63,761,434
Right of use lease assets	211,341	281,789	-	493,130
Subscription assets	1,277,343	784,069	-	2,061,412
Infrastructure	77,654,181	4,235,284	-	81,889,465
Total accumulated depreciation	<u>335,474,969</u>	<u>17,217,936</u>	<u>4,997,569</u>	<u>347,695,336</u>
Total capital assets, being depreciated, net	<u>367,641,352</u>	<u>(7,380,449)</u>	<u>8,246</u>	<u>360,252,657</u>
Governmental activities capital assets, net	<u>\$ 1,063,105,085</u>	<u>\$12,252,479</u>	<u>\$ 8,246</u>	<u>\$ 1,075,349,318</u>

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

General government	\$ 8,427,261
Public safety	232,749
Public works	8,208,896
Culture and education	241,213
Health and Sanitation	<u>107,817</u>
Total depreciation expense-governmental activities	<u>\$ 17,217,936</u>

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b. Business-Type Activities

<u>Business-type activities</u>	<u>Balance July 1, 2024</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2025</u>
Capital assets, not being depreciated:				
Land	\$ 764,700	\$ -	\$ -	\$ 764,700
Total capital assets, not being depreciated	<u>764,700</u>	<u>-</u>	<u>-</u>	<u>764,700</u>
Capital assets, being depreciated:				
Infrastructure	<u>18,997,828</u>	<u>-</u>	<u>-</u>	<u>18,997,828</u>
Total capital assets, being depreciated	<u>18,997,828</u>	<u>-</u>	<u>-</u>	<u>18,997,828</u>
Less accumulated depreciation for:				
Infrastructure	<u>2,311,403</u>	<u>379,957</u>	<u>-</u>	<u>2,691,360</u>
Total accumulated depreciation	<u>2,311,403</u>	<u>379,957</u>	<u>-</u>	<u>2,691,360</u>
Total capital assets, not being depreciated	<u>16,686,425</u>	<u>(379,957)</u>	<u>-</u>	<u>16,306,468</u>
Business-type activities assets	<u>\$ 17,451,125</u>	<u>\$ (379,957)</u>	<u>\$ -</u>	<u>\$ 17,071,168</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2025 are as follows:

P. R. Electric Power Authority	\$ 15,374,871
P. R. Health Insurance Administration (ASES)	11,500,000
Employees Retirement System-PAY GO	1,324,548
P.R Department of Labor and Human Resources	409,688
Employees Retirement System	216,229
Puerto Rico Water and Sewer Authority	<u>985,870</u>
	<u>\$ 29,811,206</u>

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13. UNEARNED MUNICIPAL LICENSE TAXES

The unearned revenues of approximately \$56.1 million in the general fund are related to municipal license taxes collected in fiscal year 2024-2025 that will be earned in fiscal year 2025-2026.

14. 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 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.

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 (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

15. INTERGOVERNMENTAL REVENUES

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

16. 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

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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. At June 30, 2025, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2025 are as follows:

a. General Obligation Bonds

\$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%.	\$ 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%.	425,000
\$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%.	745,000
\$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%.	635,000
\$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%.	595,000
\$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%.	135,000
\$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%.	1,095,000

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\$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%.	\$ 770,000
\$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%.	3,248,761
\$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%.	3,609,890
\$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%.	7,104,264
\$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%.	11,974,233
\$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%.	5,418,190
\$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%.	16,305,000
\$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%.	13,230,658
\$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%.	10,610,000

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\$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%.	\$ 6,041,892
\$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%.	4,964,528
\$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%.	7,982,000
\$33,375,000 series of 2015 payable in annual installments from \$595,000 to \$2,830,000 until July 1, 2032, interest from 1.48% to 7.00%.	<u>13,644,030</u>
Total bonds payable	<u><u>\$109,443,446</u></u>

	<i>Bonds Payable</i>		
	Principal	Interest	Total
2026	\$ 13,527,000	\$ 8,189,804	\$ 21,716,804
2027	13,417,000	7,792,180	21,209,180
2028	13,635,000	6,707,404	20,342,404
2029	14,043,000	5,614,609	19,657,609
2030	9,898,000	4,507,287	14,405,287
2031-2035	37,090,897	11,390,560	48,481,457
2036-2040	<u>7,832,549</u>	<u>1,362,888</u>	<u>9,195,437</u>
	<u><u>\$ 109,443,446</u></u>	<u><u>\$ 45,564,732</u></u>	<u><u>\$ 155,008,178</u></u>

b. Other Long-Term Debts

<p><u>Total Pension Liability</u> – Represents the proportional share of the collective pension liability of all employers for benefits provided through the pension plan in accordance with GASB 73, calculated by PRGERS actuaries for the measurement date June 30, 2023.</p>	\$ 108,335,404
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<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.	\$ 20,552,979
<u>Total OPEB Liability</u> – Represents the proportional share of the collective pension liability of all employers for benefits provided through the pension plan in accordance with GASB 75, calculated by PRGERS actuaries for the measurement date June 30, 2023.	4,504,744
<u>Lease Liability</u> – represents the long-term arrangement for equipment. The agreement have been recorded at present value of the future minimum lease payments as of the date of their inception. The lease included fixed payment, and the lease liability ae measures at a discount rate of 5% which is implicit in the lease. As a result the Municipality Recorded a right to used asset with a net book value of \$915,813 and lease of:	955,251
<u>Municipal Revenue Collection Center</u> – The debt corresponds to the final settlement for the fiscal year.	869,136
<u>Christmas Bonus</u> – Represent the accrued portion corresponding to the fiscal year 2025 of the Christmas bonus to be paid in November 2025	2,718,098
<u>Claims and Judgements</u> – Represent estimated of losses of legal cases to be paid subsequent to June 30, 2025. The awarded amount, if any, will be paid with unrestricted funds.	700,743
<u>Subscription Liability</u> – represents the long-term arrangement for SBITAs that allow the right-to use- the SBITA vendors information technology software over the subscription term.	912,305
<u>Landfill Obligation</u> – represents the Municipality’s estimate for the post closure costs related to its landfill (see note 18).	<u>6,150,411</u>
Total other long-term debts	<u>\$ 145,699,071</u>

c. Revenue Bond-Proprietary Fund

On December 19, 2013, the Municipality of Guaynabo entered into 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.

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The proceeds of the non-revolving line of credit was 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 this 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 2016-2017.

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. In the event that 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 (“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.

At June 30, 2025, bonds payables consist of:

2014 revenue bonds due on July 1, 2028, 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.	\$ 16,547,777
Less: Current portion on bonds payable	<u>(580,000)</u>
Bonds payable, long-term portion	<u>\$ 15,967,777</u>

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At June 30, 2025 the aggregate principal maturities are as follow:

	<u>Principal</u>	<u>Interest</u>	<u>Aggregated payments</u>
2026	\$ 580,000	\$ 377,520	\$ 957,520
2027	640,000	232,752	872,752
2028	15,327,777	79,092	15,406,869
	<u>\$ 16,547,777</u>	<u>\$ 689,364</u>	<u>\$ 17,237,141</u>

<u>Governmental Activities</u>	<u>Beginning Balance as restated</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 123,236,362	\$ -	\$ (13,792,916)	\$ 109,443,446	\$ 13,527,000
Total long-term debt	123,236,362	-	(13,792,916)	109,443,446	13,527,000
Total pension liability	115,805,460	-	(7,470,056)	108,335,404	8,172,143
OPEB liability	4,911,717	-	(406,973)	4,504,744	498,397
Compensated absences	18,679,368	1,873,611	-	20,552,979	9,910,000
Subscription liability	1,165,726	526,491	(779,912)	912,305	556,863
Lease liability	2,129,346	-	(1,174,095)	955,251	277,604
Christmas bonus	-	2,718,098	-	2,718,098	2,718,098
Claims and judgements	-	700,743	-	700,743	297,000
CRIM	-	869,136	-	869,136	869,136
Landfill obligation	6,509,601	-	(359,190)	6,150,411	373,856
Total other liabilities	149,201,218	6,688,079	(10,190,226)	145,699,071	23,673,097
Total noncurrent liabilities	<u>\$ 272,437,580</u>	<u>\$ 6,688,079</u>	<u>\$ (23,983,142)</u>	<u>\$ 255,142,517</u>	<u>\$ 37,200,097</u>
<u>Business-Type Activities</u>					
Revenue Bond Payable	<u>\$ 17,918,141</u>	<u>\$ -</u>	<u>\$ (1,370,364)</u>	<u>\$ 16,547,777</u>	<u>\$ 580,000</u>

The change in compensated absences above is the net change for the year.

17. PENSION PLAN

After the approval of Act No. 106-2017, with the elimination of the Board of Trustees and the liquidation of plan assets, the GASB No. 73, "Accounting and Financial Reporting for

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Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68, was implemented instead of GASB No. 68 effective on July 1, 2018. Accordingly, Total Pension Liability, - Deferred Outflows/Inflows of Resources is presented. The information related to the Total Pension Liability presented is as of June 30, 2024.

Puerto Rico Government Employees Retirement System

a) Description of the Plan

The Defined Benefit Pension Plan for Participants of the Puerto Rico Government Employees Retirement System (PRGERS) was created by Act No. 447, approved on May 15, 1951, as amended (Act No. 447-1951) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the PRGERS was administered by the Board of Trustees of the PRGERS. Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "Pay-As-You-Go" (Pay-Go) system for the payment of pensions. Also pursuant to Act No. 106-2017, the PRGERS was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits. After that, new employees hired July 1, 2017 and later will not become PRGERS members, current PRGERS members will no longer make any contributions to PRGERS, and PRGERS will be funded on a Pay-Go basis.

As a result of the implementation of the Pay-Go system, the Plan does not meet the criteria in paragraph 4 of GASB No. 68, *Accounting and Financial Reporting for Pension*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68. Under the guidance of GASB No. 73, the Commonwealth and its component units are considered to be one employer and are classified for financial reporting purposes as a single employer defined benefit pension plan.

b) Pension Benefits

The benefits provided to the PRGERS participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision. Certain provisions are different for the three groups of members who entered the PRGERS prior to July 1, 2013 as described below: invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447 and

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Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, will be paid from the same pool of assets of the ERS.

- Members of Act No. 447-1951 are generally those members hired before April 1, 1990 (Contributory, Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 (Act No. 1-1990) and on or before December 31, 1999 (Contributory, Defined Benefit Program)
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contributory Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment.

In addition, employees who on June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3-2013 froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

A. Service Retirement Eligibility Requirements

- 1) *Eligibility for Act No. 447-1951 Members:* Act No. 447-1951 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447-1951 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Credited Service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of Credited Service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of Credited Service as a Mayor. In addition, Act No. 447-1951 members who attained 30 years of Credited Service by December 31, 2013 are eligible to retire at any time. Act No. 447-1951 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 are eligible to retire

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upon attainment of the retirement eligibility age shown in the table below with 10 years of Credited Service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1996	57 and up	59

In addition to the requirements in the table above, Act No. 447-1951 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Credited Service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

- 2) *Eligibility for Act No. 1-1990 Members:* Act No. 1-1990 members who were eligible to retire as of June 30, 2013, continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1-1990 members could retire upon (1) attainment of age 55 with 25 years of Credited Service, (2) attainment of age 65 with 10 years of Credited Service, (3) for Public Officers in High Risk Positions, any age with 30 years of Credited Service, and (4) for Mayors, attainment of age 50 with 8 years of Credited Service as a Mayor.

Act No. 1-1990 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of Credited Service. In addition, Act No. 1-1990 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of Credited Service.

- 3) *Eligibility for System 2000 Members:* System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise. System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.
- 4) System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

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Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1956	59 and up	61

- 5) *Eligibility for Members Hired after June 30, 2013:* Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

B. Compulsory Retirement

All Act No. 447-1951 and Act No. 1-1990 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of Credited Service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

C. Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447-1951 and Act No. 1-1990 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

- 1) *Accrued Benefit as of June 30, 2013 for Act No. 447-1951 Members* – The accrued benefit as of June 30, 2013, shall be determined based on the average compensation, as defined, for Act No. 447-1951 members, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 447-1951 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447-1951 member had at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting

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to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of Credited Service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

If the Act No. 447-1951 member had less than 30 years of Credited Service as of June 30, 2013, and attains 30 years of Credited Service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of Credited Service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447-1951 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of Credited Service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of Credited Service.

If the Act No. 447-1951 member had less than 30 years of Credited Service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of Credited Service up to 20 years, plus 2% of average compensation multiplied by years of Credited Service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of Credited Service up to 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of Credited Service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of Credited Service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447-1951 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayor Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayor Credited Service in excess of 20 years. Non-Mayor Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

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- 2) *Accrued Benefit as of June 30, 2013 for Act No. 1-1990 Members:* The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 member, the years of Credited Service, and the attained age of the member all as of June 30, 2013. For Act No. 1-1990 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013. If the Act No. 1-1990 member is a police officer or firefighter with at least 30 years of Credited Service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1-1990 members, the accrued benefits equal 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1-1990 Mayors with at least 8 years of Credited Service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of Credited Service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral Credited Service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral Credited Service in excess of 20 years. Non-Mayoral Credited Service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

D. Special Benefits

1) Minimum Benefits

- Past Ad hoc Increases: The Legislature, from time to time, increases pensions for certain retirees as described in Act No. 124-1973 and Act No. 23-1983.
- Minimum Benefit for Members who Retired before July 1, 2013: The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007 and \$300 per month up to June 30, 2007) (Act No. 156-2003, Act No. 35-2007, and Act No. 3-2013).
- Coordination Plan Minimum Benefit: A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

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2) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10-1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act No. 35-2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35-2007).

3) Special "Bonus" Benefits

- Christmas Bonus: An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013 (Act No. 144-2005, as amended by Act No. 3-2013).
- Medication Bonus: An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013 (Act No. 155-2003, as amended by Act No. 3-2013).

E. Changes in Plan Provisions since Prior Valuation

Act No. 106-2017 closed participation in PRGERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of PRGERS. The following contributions were eliminated July 1, 2017 by Act No. 106-2017:

- o Act No. 116-2011 Employer Contributions
- o Act No. 32-2013 Additional Uniform Contribution

- o Act No. 3-2013 Supplemental Contributions
- o Member Contributions

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3. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

After the approval of Act No. 106-2017, the PRGERS assets are liquidated and GASB No. 73 is now implemented in substitution of GASB No. 68. The Municipality's Total Pension Liability was measured as of June 30, 2024 based on actuarial valuation performed by government external consultants which issued their report on December 22, 2025.

A. Total Pension Liability

Effective July 1, 2014, the Municipality implemented the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68", which significantly changed the Municipality's accounting for pension amounts. The information disclosed below is presented in accordance with GASB No 73, after the implementation of Act No. 106-2017. The Municipality's Total Pension Liability was measured as of June 30, 2024. The measurement Date is June 30, 2024, date as of which the Total Pension Liability is determined. The Reporting Date is for periods ending July 1, 2024 through June 30, 2025.

As June 30, 2025, the Municipality's proportional share of the Total Pension Liability used was as follows:

Proportion- June 30, 2024	0.0050%
Proportion- June 30, 2025	0.0049%
Change-Increase (Decrease)	-0.0001%

As June 30, 2025, the Municipality reported \$108,335,404 as Total Pension Liability for its proportionate shares of the Total Pension Liability of PRGERS.

	Total	Proportional Share
Total Pension Liability		-0.486100%
Total Pension Liability	\$ 22,288,148,917	\$ 108,335,404
Covered Payroll	\$ 1,184,893,921	\$ 8,293,130
Total Pension Liability as a % of Covered Payroll	1881.02%	1306.33%

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B. Pension Expenses

For the fiscal year ended June 30, 2025, the Municipality incurred in a pension expense amounted to \$3.7 million and made pension benefits payments of \$8,172,143 through the Puerto Rico's Pay-Go system.

C. Deferred Outflows/Inflows of Resources

As of June 30, 2025, the Municipality reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 1,969,959	\$ 2,691,837
Changes in assumptions	8,846,402	1,308,590
Benefits paid after measurement date	<u>8,172,143</u>	<u>-</u>
Total	<u>\$ 18,988,504</u>	<u>\$ 4,000,427</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to Total Pension Liability to be recognized in future periods in a systematic and rational manner.

Deferred outflows of resources of \$8,172,143 resulting from benefits paid after the measurement date will be recognized as a reduction of the total pension liability in the year ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2025	\$ 3,407,967
2026	3,407,967

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D. Actuarial Methods and Assumptions

Changes in Actuarial Methods since the Prior Evaluation

The GASB No. 73 discount rate has increased from 3.65% as of June 30, 2023 to 3.93% as of June 30, 2024. The projected mortality improvement scale was updated from Scale MP-2020 to Scale MP-2021 to reflect the projected mortality improvement scale issued in the valuation year.

The ultimate cost of a pension plan is the excess of actual benefits and administrative expenses paid over actual net investment return on plan assets during the plan's existence until the last payment has been made to the last participant. The plan's "actuarial cost method" determines the expected incidence of actuarial costs by allocating portions of the ultimate cost to each plan year. The cost method is thus a budgeting tool to help to ensure that the plan will be adequately and systematically funded and accounted for. There are several commonly used cost methods which differ in how much of the ultimate cost is assigned to each prior and future year. Therefore, the pattern of annual contributions and accounting expense are also affected by the "asset valuation method" (as well as the plan provisions, actuarial assumptions, and actual plan demographic and investment experience each year).

Actuarial Cost Method

The plan's actuarial cost method is the entry age normal method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of his compensation each year, it would accumulate at the valuation interest rate over his total prior and future years of service to his assumed retirement date into an amount sufficient to fund his projected benefit. The plan's accrued liability is the sum of (a) the accumulation of each active participant's normal costs attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

Because of Act No. 106-2017, no future benefits (except for the additional benefits due to death or disability for reasons specified in Act No. 127-1958) will be earned by PRGERS members. As a result, the GASB Statement No. 73 Total Pension Liability equals the present value of all non-Act No. 127-1958 projected benefits. The normal cost only reflects the anticipated future Act No. 127-1958 benefits.

Liability Determination

The results as of June 30, 2024 are based on projecting the System obligations

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determined as of the census data collection date of July 1, 2021 for one year using roll-forward methods, assuming no liability gains or losses.

Due to Act No. 106-2017, the non-Act No. 127-1958 benefits are considered fully accrued and the only normal cost going forward will be due to Act No. 127-1958 benefits.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2024 is provided below, including any assumptions that differ from those used in the June 30, 2023 actuarial valuation. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees. The actuarial valuation used the following actuarial assumptions:

Municipal Bond Rate: 3.93% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

GASB No. 73 Discount Rate: 3.93% per annum

Compensation Increases: 3.0% per year. No compensation increases are assumed until July 1, 2021 as result of the Act No. 3-2017 four year extension of the Act No. 66-2014 salary freeze and the current general economy. Based on professional judgment and System input.

Define Contribution Hybrid Contribution Account: No member contributions will be made to the Defined Contribution account after June 30, 2017. Based on the liquidation of System assets and move to Pay-Go funding under Act No. 106-2017, no future interest credits are assumed after June 30, 2017.

Basis for Demographic Assumptions: The post-retirement health and disabled mortality assumptions used in the evaluation are based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. Most other demographic assumptions used in the evaluation are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007. Certain demographic assumptions (e.g., termination and retirement) were impacted by the Act No. 3-2013 pension reforms and were revised based on the new retirement eligibility and expected future experience. All assumptions were reviewed with PRGERS staff for reasonableness and are documented in this Section.

Pre-retirement Mortality: For general employees not covered under Act No. 127-1958, PubG-2010 employee rates, adjusted by 100% for males and 110% for female, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010

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Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scales MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127-1958.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 healthy retire rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on generational basis. As generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scales MP-2021 on a generational basis. As generational tables, it reflects mortality improvements both before and after the measurement date.

Marriage: 100% of current active members covered under Act No. 127-1958 who die in service or become disabled are assumed to have qualifying beneficiaries receiving the maximum benefits possible, which are approximated by a spouse with males 4 years older than females.

Form of Payment: For members retiring after June 30, 2013 (other than under Act No. 127-1958), upon disability an immediate lump sum distribution of the Defined Contribution Hybrid Contribution Account plus, for Act No. 447-1951 and Act No. 1-1990 members, a modified cash refund of the accrued benefit as a June 30, 2013 commencing at retirement eligibility; otherwise, a modified cash refund.

For members retiring after June 30, 2013 under Act No. 127-1958, a Joint & 100% Survivor benefit of the Act No. 127-1958 Disability benefit.

Marital status was provided as of July 1, 2016 but was not provided as of July 1, 2017 for retired and disabled members who retired prior to July 1, 2013. With the exception of annuitants with future benefits payable as a result of Act No. 211-1958, for those indicated as married as of July 1, 2016, and any new retirees as of July 1, 2017, a joint and survivor annuity was assumed (as shown in the following table), with an adjustment for the probability the spouse has pre-deceased the retiree as of the valuation date. Annuitants with future benefits payable as a result of Act No. 211-1958 and those not married were assumed to have a modified cash refund (as

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shown in the following table). The spouse's date of birth was imputed based on an assumed age difference of 4 years with males older than females.

Discount Rate

After June 30, 2017, the Commonwealth enacted legislation that changed the structure of pension administration managed by PRGERS. For further information regarding such pension legislation. The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

The discount rate on June 30, 2023 and 2024, was as follow:

	June 30, 2023	June 30, 2024
Discount rate	3.65%	3.93%
20 Year tax-Exempt Municipal Bon Yield	3.65%	3.93%

Changes in Total Pension Liability

Change in Total Pension Liability	Total Pension Liability	Proportional Share
Balance as of June 30, 2023	\$ 23,335,683,397	\$ 115,805,460
Change for th year:		
Service cost	18,942,314	117,631
Interest on Total Pension Liability	825,205,418	4,091,472
Effect of Plan changes	206,910,409	-
Effect of Economic/Demographic (Gain)ior Losses	44,617,892	(951,528)
Effect of Assumptions Change or Inputs	(637,197,147)	(3,002,467)
Benefits Payments	(1,506,013,366)	(7,725,164)
Balance as of June 30, 2024	<u>\$ 22,288,148,917</u>	<u>\$ 108,335,404</u>

E. Sensitivity of the Proportionate Share of the Total Pension Liability to Changes in the Discount Rate

The following presents the Municipality's proportionate share of the Total Pension Liability calculated using the discount rate, as well as what the Municipality's proportionate share of the Total Pension Liability would be if it

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were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

	1 % Decrease 2.93%	Discount rate 3.93%	1 % Increase 4.93%
Total Pension Liability as of June 30, 2024	\$ 119,770,383	\$ 108,335,404	\$ 98,701,138

Fiscal Plan for Puerto Rico

The Fiscal Plan for Puerto Rico was approved by the Oversight Board of PROMESA on April 23, 2021. The approval was conditioned on the Puerto Rico government and the Board reaching an agreement to reduce benefit payments of the following systems by 8.5% in the aggregate to beneficiaries of more to \$1,500 of monthly benefits:

- Puerto Rico Government Employees Retirement System
- Puerto Rico Judiciary Retirement System
- Puerto Rico Teachers Retirement System

The details of the reduction methodology, which will determine how the reductions impact each system, are not final at this time. A multi-year delay in implementation is also anticipated. These potential reductions are not reflected in the June 30, 2023 valuation. Also, note that the Fiscal Plan anticipates that PRGERS will be funded on a “Pay-As-You-Go” basis.

“Pay-As-You-Go” Funding

On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 in order to convey to the central government agencies, public corporations and municipalities the new implementation procedures to adopt, effective July 1, 2017, a new “Pay-As-You-Go” (Pay-Go) mechanism for the PRGERS.

Subsequently, on August 23, 2017, the Governor signed into law the “Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants” (Act No. 106-2017), which reformed the Commonwealth Retirement Systems. Act No. 106-2017 terminated the previously existing pension programs for the PRGERS participants as of June 30, 2017. The members of the prior programs and new system members hired on and after July 1, 2017 are now enrolled in a new defined contributions program. Act No. 106-2017 also established by law the Pay-Go mechanism for the payment of accumulated pension benefits and eliminated employers’ contributions and other analogous

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contributions. Approximately \$2 billion was allocated for the payment of Pay-Go benefits in each of the budgets for fiscal years 2018 through 2021.

Furthermore, Act No. 106-2017 modified the PRGERS governance. Under Act No. 106-2017, the PRGERS Board of Trustees was substituted with a new Retirement Board, which is currently responsible for governing all of the Commonwealth's Retirement Systems.

Act No. 106-2017 also ordered a suspension of the PRGERS loan programs and ordered a merger of the administrative structures of the retirement systems. At the Retirement Board's discretion, the servicing of the PRGERS existing loan portfolio may be externalized. Pursuant to Act No. 106-2017, the employees of the PRGERS that are not retained under the new administrative structure will be transferred to other public agencies in conformity with Act No. 8-2017.

At a basic level, PRGERS will need to hold some level of operating cash to account for any ongoing timing issues between receipt and disbursement of funds. The Pay-Go funding needed in a given year is the difference between actual contributions and actual disbursements:

- Contributions to PRGERS are primarily based on statutory percentage of payroll.
- Disbursement are comprised of benefit payments, administrative expenses, and Pension Obligation Bond debt service.

Contributions and disbursements will experience natural variation due to emerging demographic experience. Contributions and disbursements can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction.

A major issue that needs to be addressed by PRGERS and the Commonwealth is determining what the process of PRGERS budgeting for Pay-Go funding will be. While the PRGERS can set an expected Pay-Go amount at the time of budgeting for an upcoming fiscal year, both actual contributions and disbursements can vary from expectations during the fiscal year.

- If the budget is set based on expected contributions and disbursements, in the event of adverse experience during the fiscal year, should provide for additional funds from the sponsoring employers.
- If the PRGERS be permitted to develop a budget request of a Pay-Go amount for the fiscal year that includes a margin to provide a buffer against adverse outcomes.

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- And how would the impacts of specific management decisions be handled.

There are certainly many more operational details to be considered. Pay-Go operation is a complex issue that requires careful thought and planning, constant monitoring, and the ability to respond to emerging events quickly.

18. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 16, the Commonwealth provides other retirement benefits, such as Christmas Bonus, and healthcare benefits for its retired employees in accordance with local laws. Substantially, all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Commonwealth.

Healthcare Benefits

The Municipality accounts for OPEB under the provisions of GASB Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, that replaces GASB Statement No. 45, *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*, changes similar to those implemented on GASB No. 67, *Financial Reporting for Pension Plans*, and No. 68, *“Accounting and Financial Reporting for Pensions”* should be made. This statement has substantially revised the accounting requirements previously mandated under GASB Statements No. 43 and 45. The most notable change is that the Annual Required Contribution (ARC) has been eliminated and the Net OPEB Liability will be an item on the employer’s financial statement rather than a footnote entity.

GASB No. 75 governs the specifics of accounting for public OPEB plan obligation for participating employers and is required to be implemented for employer fiscal years beginning after June 15, 2017 (Fiscal Year 2017-2018). GASB No. 75 requires a liability for OPEB obligations, known as the Net OPEB Liability (Total OPEB Liability for unfunded plans), to be recognized on the balance sheets of participating employers. Changes in the Net OPEB Liability (Total OPEB Liability for unfunded plans) will be immediately recognized as OPEB Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

As PRGERS is a multiple employer plan and the benefits are not funded by an OPEB trust, GASB No. 75 applies to the OPEB provided to each participating employer’s own employees. The Central Government and its component units are considered to be one employer. Other employers also participate in PRGERS. Because certain employers that are component units of the Central Government prepare individual financial statements, a proportionate share of OPEB expense is determined for these employers.

Funding Policy – the contribution requirement of ERS Medical Insurance Plan (MIP), are

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established by Act No. 95- 1963. Its benefit consists of a maximum of \$100 per month per retiree or disabled member. There are no member or employer contributions on behalf of the MIP. These benefits are financed on a “Pay-As-You-Go” basis from the General Fund of the Commonwealth of Puerto Rico and municipalities.

Christmas Bonus Benefits

The Christmas Bonus was \$200 per retiree pursuant to Act No. 3-2013. This benefit is recorded as expenditures when paid in the General Fund of the Commonwealth of Puerto Rico.

Relationship Between Valuation Date, Measurement Date, and Reporting Date

The Valuation Date is July 1, 2022. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2024. This is the date as of which the Total OPEB liability is determined. This report is for measurement year July 1, 2023 to June 30, 2024 for reporting period ending June 30, 2025.

Significant Changes

There have been no significant changes between the valuation date and measurement year end. Participant Data as of July 1, 2024 was 88,700 retirees.

Deferred Inflows and Outflows

Because all participants are inactive, there are no deferred inflows and outflows as any changes due to changes in actuarial assumptions or demographic gains and losses are recognized immediately during the measurement year.

Total OPEB Liability

The Total OPEB Liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB No. 75.

Total OPEB Liability	Total	Proportional Share -0.657600%
Total OPEB Liability	\$ 684,953,206	\$ 4,504,744
Covered Payroll	N/A	N/A
Total OPEB Liability as a % of Covered Payroll	N/A	N/A

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The Municipality's proportionate share of the Total OPEB Liability used was as follows:

Proportion- June 30, 2023	0.0066%
Proportion- June 30, 2024	0.0066%
 Change-Increase (Decrease)	 0.0000%

The discount rate on June 30, 2023, and 2024, was as follow:

	June 30, 2023	June 30, 2024
Discount rate	3.65%	3.93%
20 Year tax-Exempt Municipal Bon Yield	3.65%	3.93%

The ERS have issued its audited financial statements as of and for the fiscal year ended June 30, 2024, but has not provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2024 (Municipality's measurement date), necessary to comply with the requirements of GASB Statement No. 75 and GASB Statement No. 73, as of June 30, 2025. As a result, amounts to be reported as Total OPEB and Pension liabilities, applicable disclosures and required supplementary information have been included with the information reported in the actuarial evaluation Reports, which are unaudited data.

Change in Total OPEB Liability	Total OPEB Liability	Proportional Share
Balance as of June 30, 2023	\$ 745,282,507	\$ 4,911,717
Change for the year:		
Service cost	-	-
Interest on Total OPEB Liability	25,945,429	170,263
Effect of Plan changes	3,148,197	-
Effect of Economic/Demographic (Gain) or Losses	(5,142,601)	15,115
Effect of Assumptions Change or Inputs	(14,759,575)	(93,954)
Benefits Payments	(69,520,751)	(498,397)
Balance as of June 30, 2024	\$ 684,953,206	\$ 4,504,744

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Actuarial Methods and Assumptions

Actuarial Assumptions:

Valuation Date	June 30, 2023
Measurement Date	June 30, 2024
Actuarial Cost Method	Entry Age Normal
Inflation	Not Applicable
Municipal Bond Index	3.93%, as per Bond Buyer General Obligation 20-Bond Municipal bond Index
Projected Salary Increases	Not Applicable

Mortality Pre-retirement Mortality: For general employees not covered under Act No. 127-1958, PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127-1958, the PubG-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of death while in active service are assumed to be occupational for members covered under Act 127.

Post-retirement Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of Plan's experience from 2013 to 2018 and updated expectations regarding's future mortality improvement. The PubG-2010 healthy retire rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of Plan's experience from 2013 to 2018 and updated expectations regarding's future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using

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Mortality Improvement Scales MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of the Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Municipality’s proportionate share of the Total OPEB Liability calculated using the discount rate, as well as what the Municipality’s proportionate share of the Total OPEB Liability would be if it were calculated using a discount rate that is 1 – percentage point lower or 1 – percentage point higher than the current rate:

	1 % Decrease 2.93%	Discount rate 3.93%	1 % Increase 4.93%
Total OPEB Liability as of June 30, 2024	\$4,857,721	\$4,504,744	\$4,196,634

19. LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Municipality adopted the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure 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 postclosure 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.

During fiscal year ended as of June 30, 2025, the Municipality incurred in landfill post-closing costs which approximates to \$345,016. The landfill obligation has been reduced to a total estimated current cost of \$6,150,411 as of June 30, 2025. These estimates are subject to adjustment for inflation 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.

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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 audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

b. Litigations

The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

21. COMMITMENTS

a. Leases

Leasing Arrangement with the Municipality as Lessor:

- The Municipality leases spaces in its Market Place and Transportation center under operating lease agreements with terms of one year or less.
- Total income from leases during the year ended June 30, 2025 was \$1,944,944.
- The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

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 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, 2025. These projects are evidenced by contractual commitments with

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contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$30.5 million.

22. FUND BALANCES

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable				
Inventory	\$ 2,655,567	\$ -	\$ -	\$ 2,655,567
Restricted:				
Federal Programs	-	-	24,824,411	24,824,411
Debt service	-	48,056,209	-	48,056,209
Committed:				
Public works	12,099,929	-	17,299,652	29,399,581
Assigned:				
General government	60,522,667	-	595,441	61,118,108
Public safety	2,396,628	-	-	2,396,628
Public works	23,595,096	-	-	23,595,096
Culture and education	82,316	-	-	82,316
Health and sanitation	15,229,638	-	-	15,229,638
Economic Development	-	-	-	-
Unassigned	51,518,573	-	(4,036,811)	47,481,762
	<u>\$ 168,100,414</u>	<u>\$ 48,056,209</u>	<u>\$ 38,682,693</u>	<u>\$ 254,839,316</u>

23. 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	\$ 1,075,349,318	\$ 17,071,168
Oustanding balance on capital related debt	(109,443,446)	(16,547,777)
Total	<u>\$ 965,905,872</u>	<u>\$ 523,391</u>

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24. 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, 2025, the Municipality abated taxes by the concept of municipal licenses as follows:

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 mended, known as the Municipality Property Tax Act. The criteria to be eligible to received abatement, the taxpayer will contribute to maintain, over 60 employe es, 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.

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

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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.

Ordinance No. 72, Series 2004-2005 - Purpose of the ordinance is to amend Ordinance Number 1, Series 2004-2005 in order to include the exemptions to be granted to other companies located nearby Cesar Castillo Inc., Inversiones José 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.

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

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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.

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%. 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.

Commonwealth of Puerto Rico Agreements

Act 168 of 1968, as amended – “Act to Grant Tax Exemptions to Hospitals”

Purpose: To grant tax incentives to hospitals and other applicable health providers' facilities in order to promote their development by providing the ability to raise funds to invest on their own operational needs.

Tax Benefits/Exemptions:

- Tax credit up to fifteen percent (15%) of the total eligible payroll expense to be used to reduce up to fifty percent (50%) of income taxes over eligible health service revenues.
- Exemption of a hundred percent (100%) from the payment of real and personal property over assets used to provide health services.
- Exemption of a hundred percent (100%) from the payment of state excise taxes over the acquisition of any equipment, machinery and effects used to provide medical diagnostics and treatments.

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- No hospital or eligible health service facility shall be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

Act 225 of 1995, as amended – “Agricultural Tax Incentives Act”

Purpose: To establish public policy in the agricultural sector and other related economic sectors. Also, to establish the requirements to qualify as “bona fide farmers” and to provide them with all kinds of exemptions for the payment of income taxes, property taxes (real and personal), municipal licenses, construction excise taxes and any other state or municipal taxes or rights.

Tax Benefits (Exemptions):

- Exemption of ninety percent (90%) of income taxes for revenues earned from agricultural business.
- Tax credit up to fifty percent (50%) of the total eligible investment.
- Exemption of a hundred percent (100%) for the payment of real and personal property over assets used intensively for agricultural businesses and purposes.
- Exemption of a hundred percent (100%) for the payment of state excise taxes over the acquisition of any equipment, machinery and effects used in the agricultural business.
- No “bona fide farmer” shall be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

Act 135 of 1998, as amended – “Tax Incentives Act”

Purpose: To provide a tax incentives program that stimulates the creation of local capital; promotes the development of aerial and marine harbor infrastructure; the exportation of products manufactured in Puerto Rico; stimulates the development of strategic industries; promotes the creation of small and medium businesses; the establishment of regional and central corporate offices and distribution centers in Puerto Rico; the creation of jobs and the development of human resources; and to stimulate the development and distribution of technology in Puerto Rico.

Tax Benefits/Exemptions:

- Tax-exempt businesses that hold a decree under this Act shall be subject to a fixed income tax rate of seven percent (7%) on their net industrial development income

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(excluding the revenue earned from investments described in item (j) of Section 2 of this Act), with other provisions that would lower the tax rate.

- Tax-exempt businesses under this Act that manufacture textiles, clothing items produced with fabrics or other materials, articles made of leather or faux leather and shoes and/or dedicated to the canning of fish, shall be subject to a fixed income tax rate of four percent (4%), with other provisions that would lower the tax rate.
- Tax-exempt businesses under this Act whose operations are located in Vieques or Culebra or in a municipality with similar economic and/or employment situations shall be totally exempt from the payment of income taxes on the revenues from the industrial development activity during the first ten (10) years beginning on the year of commencement of operations. After the ten-year period, the tax-exempt business shall be subject to a fixed income tax rate of two percent (2%).
- Tax-exempt businesses that are service units that hold a decree under paragraph sixteen (16) of item (i) of Section 2 of this Act shall be subject to a fixed income tax rate of four percent (4%) on their net industrial development income from operations that exclusively cover markets in Central and South America, or to a two percent (2%) fixed rate on their net industrial income from operations that cover markets from North America through South America or the global market.
- Shareholders or partners of tax-exempt businesses that hold a decree under this Act that are individuals will have the right to an income tax credit equal to thirty percent (30%) of their proportional participation in the fix tax rate on the net industrial development income paid by the tax-exempt business.
- Tax-exempt businesses that hold a decree under this Act, are dedicated to manufacturing and generate a net industrial development income, calculated without taking into account the benefits of the special deductions provided by this Act, of less than \$30,000 per production job, shall enjoy a special payroll deduction equal to a fifteen percent (15%) of the production payroll of the taxexempt business, up to fifty percent (50%) of the net industrial development income computed without taking into account this special deduction.
- Special deduction equal to the amount of job training expenses incurred to improve productivity and quality control, to promote total quality management and to better the communication skills of their employees, incurred in excess of the average annual amount incurred in these expenses during the three (3) tax years ending after the effective date of this Act.

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- Special deduction that equals the amount of expenses incurred in the research, experimentation and development of new products or industrial processes, or in the improvement of existing ones, that is deductible in the tax year under Subtitle A of the Puerto Rico Internal Revenue Code.
- Tax-exempt businesses that hold a decree under this Act shall have the choice to deduct in the tax year in which they are incurred the amounts invested in the construction and/or purchase of buildings, structures, machinery and equipment, instead of capitalizing the expenses made as required by the Puerto Rico Internal Revenue Code, as long as the assets have not being previously used by another person or business in Puerto Rico and they are utilized for the manufacturing of products or for providing the services for which the benefits under this Act were granted.
- Special deduction for the purchase of products manufactured in Puerto Rico that equals fifteen percent (15%) of purchase amount, reduced by the average of the purchases made of these products during the year 2000. This deduction is granted only for purchases of products that have been manufactured by companies not related to the tax-exempt business.
- Ninety-percent (90%) exemption on municipal and Commonwealth taxes on real and personal property.
- Sixty-percent (60%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes levied by any municipal ordinance. However, tax-exempt businesses described in paragraph (2) of item (a) of Section (3) of this Act shall be granted a seventy-five (75%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes; and for those described in paragraph (3) of item (a) of Section (3) of this Act, the exemption will be ninety percent (90%).
- Complete exemption on state excise taxes following the terms indicated in item (c) of Section (6).

Act 255 of 2002 – “Savings and Loans Associations Act, as amended”

Purpose: To permit the free offering of products and services by savings and loans associations under terms and conditions similar to the other participants of the financial markets; to promote the offering of financial resources and services to small and medium-sized businesses through savings and loans structures; and to facilitate the economic integration of the savings and loans associations with other economic and financial sectors.

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Tax Benefits/Exemptions:

- The savings and loans associations, their subsidiaries or affiliates, as well as the revenue of all of their activities/operations, their assets, capital, reserves and surplus of income, will be exempt from the payment of income taxes, property taxes, state excise taxes or of any other tax imposed or to be imposed by the Commonwealth or any of its political subdivisions, except for the sales and use tax established in the Sections 4020.01 and 4020.02 of the Puerto Rico Internal Revenue Code; the tax authorized by Section 6080.14; the taxes established in Sections 4210.01, 4210.02 and 4210.03; and the excise taxes under Chapter 2 of Subtitle C of Act 1 of 2011.
- All shares and securities issued by the associations, their subsidiaries and affiliates, as well as the dividends and interest paid on them, will be exempt of any type of tax assessment, including income, property, excise, license or any other tax imposed or to be imposed by the Commonwealth or any of its political subdivisions.
- Exemption from the payment of state and municipal license and excise taxes, rights, charges, permits and registration fees.

Act 73 of 2008 – “Economic Incentives Act for the Development of Puerto Rico”

Purpose: To provide the adequate environment and opportunities to continue developing local industries; to offer an attractive tax proposal to attract direct foreign investment and to promote economic development and social betterment in Puerto Rico.

Tax Benefits/Exemptions:

- The tax-exempt businesses that hold a decree under this Act shall be subject to a fixed income tax rate of four percent (4%) on their net industrial development income, with other provisions that would lower the tax rate. Also, they will have a 100% exemption on the income earned from eligible investments.
- A special deduction for investment in buildings, structures, machinery and equipment in the taxable year during which these were incurred, in lieu of any capitalization of expenses.
- A tax credit for purchasing products manufactured in Puerto Rico equal to twenty-five percent (25%) of the purchases of such products.

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- A tax credit to reduce the cost of electric power of up to 10% of the payments made to the Puerto Rico Electric Power Authority for the net electric power consumption.
- Sixty-percent (60%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes levied by any municipal ordinance.
- Ninety-percent (90%) exemption on municipal and Commonwealth taxes on real and personal property.

Not-for-profit Organizations

Not-for-profit organizations are entities, incorporated or not, dedicated to the offering of services that, under the Puerto Rico Internal Revenue Code, qualify for an exemption from the payment of state income taxes. For example, entities created for charitable, literary, scientific and educational purposes; professional organizations and certain clubs and fraternity associations can request this exemption subject to their compliance with the requirements stated in the Puerto Rico Internal Revenue Code. Generally, these organizations are 100% exempt from the payment of property taxes, municipal license taxes and municipal construction excise taxes. Title V, Article 5.01, items (e) through (g) of Act 83 of 1991 – “Municipal Property Tax Act, as amended,” states the types of organizations that are exempt from the payment of personal and real property taxes. For municipal license taxes, Section 9 – “Exemptions” of Act 113 of 1974 – “Municipal License Taxes Act, as amended,” establishes the organizations that are exempt from the payment of municipal license taxes. Finally, municipal ordinances state the percentage of construction excise taxes, if any, that these types of organizations must pay.

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Act's Name	Tax Category	Percent or Amount Abated	Amount Abated FY 2024-2025
Act 168 of 1968, as amended – “Act to Grant Tax Exemptions to Hospitals”	Real Property Tax	100%	\$ 182,064
	Personal Property Tax	100%	400,726
			\$ 582,790
Act 225 of 1995, as amended – “Agricultural Tax Incentives Act”	Real Property Tax	100%	\$ 494,914
	Personal Property Tax	100%	
			\$ 494,914
Act 135 of 1998, as amended - "Tax Incentives Act"	Real Property Tax	90%	\$ 608,965
	Personal Property Tax	90%	592,225
			\$ 1,201,190
Act 255 of 2002 – “Savings and Loans Associations Act, as amended”	Real Property Tax	100%	\$ 134,895
	Personal Property Tax	100%	319,856
			\$ 454,751
Act 73 of 2008 – “Economic Incentives Act of 2008	Real Property Tax	90%	\$ 1,173,717
	Personal Property Tax	90%	7,160,841
			\$ 8,334,558
Act 273 of 2012 – “Regulatory Act from International Financing Center	Personal Property Tax	90%	\$ 40,004
			\$ 40,004
Act 83 of 2010 – “Act from green energy	Personal Property Tax	90%	\$ 125,541,756
			\$ 125,541,756
Act 60 of 2019 – Puerto Rico Incentives Code	Personal Property Tax	90%	\$ 1,741,601
			\$ 1,741,601
Other	Real Property Tax	90%	\$ 2,570,611
	Personal Property Tax	90%	5,239,383
			\$ 7,809,994
Foreign Trade Zone	Real Property Tax	90%	\$ 208,084
	Personal Property Tax	90%	36,731,273
			\$ 36,939,357
Not-for-profit organizations	Real Property Tax	100%	\$ 930,233
	Personal Property Tax	100%	71,616
			\$ 1,001,849

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

25. RESTATEMENTS OF BEGINNING BALANCE

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

<u>Description</u>	<u>Fund Balance</u>	<u>Net Position</u>
	<u>Debt Service Fund</u>	<u>Government-Wide Statements</u>
Fund balance/net position, at beginning of year , as previously reported	\$ 39,693,587	\$ 1,115,822,638
Understatement of bond payable	(910,002)	(910,002)
Overstatement of fixed assets		(63,671,242)
Fund balance/ net position, at beginning of year, as restated	<u>\$ 38,783,585</u>	<u>\$ 1,051,241,394</u>

26. SUBSEQUENT EVENTS

The Municipality evaluated subsequent events through March 24, 2026, the date on which the basic financial statements were available to be issued. There are no material subsequent events that would require adjustments to or disclosures in the accompanying basic financial statements as of and for the year ended June 30, 2025.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 44,192,593	\$ 44,192,593	\$ 44,192,593	\$ -
Municipal license taxes	58,553,250	58,553,250	70,267,014	11,713,764
Sales and use taxes	17,000,000	17,000,000	20,261,724	3,261,724
Construction excise, licenses and permits	5,925,000	5,925,000	9,002,184	3,077,184
Charges for services and rent	3,477,503	3,477,503	4,747,734	1,270,231
Intergovernmental revenues:				
State contributions	3,881,641	3,881,641	3,881,641	-
Interest, fines, and penalties	3,540,000	3,540,000	10,798,047	7,258,047
Other revenues	60,000	60,000	1,401,395	1,341,395
Total revenues	<u>136,629,987</u>	<u>136,629,987</u>	<u>164,552,332</u>	<u>27,922,345</u>
EXPENDITURES				
Current:				
General government	91,717,506	106,369,402	104,517,102	1,852,300
Public safety	15,152,274	14,327,659	14,126,250	201,409
Public work	13,852,872	18,622,446	18,479,035	143,411
Culture, recreation and education	2,679,926	2,489,695	2,405,351	84,344
Health and sanitation	13,227,409	12,820,785	12,252,619	568,166
Economic Development				-
Total expenditures	<u>136,629,987</u>	<u>154,629,987</u>	<u>151,780,357</u>	<u>2,849,630</u>
Reprogramming funds	-	18,000,000	18,000,000	-
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,771,975</u>	<u>\$ 30,771,975</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule			\$ 164,552,332	
Differences - budget to GAAP:				
Net change in receivables			1,833,729	
Non-budgeted revenues			<u>19,735,504</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances			<u>\$ 186,121,565</u>	
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule			\$ 151,780,357	
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis			13,764,820	
Net change in payables			6,874,579	
Transfer out			(12,099,929)	
Current year encumbrances recorded as expenditures for budgetary purposes			(19,064,179)	
Non-budgeted expenditures			<u>21,944,686</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances			<u>\$ 163,200,334</u>	

See note to Budgetary Comparison Schedule.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
NOTE TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

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 control purposes,

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
NOTE TO BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

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 sufficient 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, 2025, the Municipality has outstanding encumbrances in the general fund amounting to \$21.2million.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY AND RELATED RATIOS FOR
SINGLE – EMPLOYER PENSION PLANS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

The Schedule of Changes in the Total Pension Liability for Single-Employer Pension Plans presents the changes in the liability for the Employees' Retirement System (ERS) of the Municipality of Guaynabo at June 30, 2025.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Total pension liability:					
Services cost	\$ 1,074,716	\$ 1,146,940	\$ 1,075,659	\$ 100,607	\$ 117,631
Interest on total pension liability	5,276,809	3,885,889	3,697,355	4,276,943	4,091,472
Effect of plan changes	(1,915,650)	-	(25,816,576)	-	-
Effect of plan changes economic/ demographics/ gain or loss	5,259,944	(3,246,485)	(3,522,606)	582,360	(951,528)
Changes in assumptions or inputs	23,396,052	1,663,667	(16,863,656)	(5,889,615)	(3,002,467)
Benefit payments	<u>(8,130,547)</u>	<u>(8,039,415)</u>	<u>(8,033,512)</u>	<u>(7,894,995)</u>	<u>(7,725,164)</u>
Net changes	24,961,324	(4,589,404)	(49,463,336)	(8,824,700)	(7,470,056)
Total pension liability - beginning	<u>153,721,576</u>	<u>178,682,900</u>	<u>174,093,496</u>	<u>124,630,160</u>	<u>115,805,460</u>
Total pension liability - ending	<u>\$ 178,682,900</u>	<u>\$ 174,093,496</u>	<u>\$ 124,630,160</u>	<u>\$ 115,805,460</u>	<u>\$ 108,335,404</u>
Covered employee payroll	<u>\$ 28,273,160</u>	<u>\$ 26,431,038</u>	<u>\$ 7,897,596</u>	<u>\$ 7,106,694</u>	<u>\$ 8,293,130</u>
Employer's total pension liability as a percentage of cover-employee payroll	<u>631.99%</u>	<u>658.67%</u>	<u>1578.08%</u>	<u>1629.53%</u>	<u>1306.33%</u>

Notes:

Schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

*The amounts presented have a measurement date of the previous fiscal year end.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
SCHEDULE OF CHANGES IN TOTAL OTHER POST-EMPLOYMENT BENEFITS LIABILITY
AND RELATED RATIOS FOR SINGLE – EMPLOYER OPEB PLANS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

The Schedule of Changes in the Total Other Post-Employment Benefits Liability for Single-Employer Pension Plans presents the changes in the liability for the Employees' Retirement System (ERS) of the Municipality of Guaynabo at June 30, 2025.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Total OPEB liability:					
Services cost	\$ -	\$ -	\$ -	\$ -	\$ -
Interest on total OPEB liability	212,497	140,318	129,868	177,411	170,263
Effect of plan changes	-	-	-	-	-
Effect of plan changes economic/ demographics/ gain or loss	(24,901)	(10,222)	19,857	23,619	15,115
Changes in assumptions or inputs	615,587	50,778	(632,784)	(41,392)	(93,954)
Benefit payments	<u>(536,000)</u>	<u>(512,800)</u>	<u>(522,559)</u>	<u>(514,600)</u>	<u>(498,397)</u>
Net changes	267,183	(331,926)	(1,005,618)	(354,962)	(406,973)
Total OPEB liability - beginning	<u>6,337,040</u>	<u>6,604,223</u>	<u>6,272,297</u>	<u>5,266,679</u>	<u>4,911,717</u>
Total OPEB liability - ending	<u>\$ 6,604,223</u>	<u>\$ 6,272,297</u>	<u>\$ 5,266,679</u>	<u>\$ 4,911,717</u>	<u>\$ 4,504,744</u>
Covered employee payroll	N/A	N/A	N/A	N/A	N/A
Employer's total OPEB liability as a percentage of cover-employee payroll	N/A	N/A	N/A	N/A	N/A

Notes:

Schedule is intended to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not required in accordance with the current GASB standards, they should not be reported.

*The amounts presented have a measurement date of the previous fiscal year end.

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
FINANCIAL DATA SCHEDULE - RQ-016
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM
JUNE 30, 2025**

Balance Sheet		
<u>Line Item Number</u>	<u>Description</u>	<u>Amount</u>
Assets		
111	Cash - unrestricted	\$ 1,100,658
113	Cash - other restricted	38,601
115	Cash- Restricted for Payment of Current Liabilities	1,948
100	Total cash	<u>\$ 1,141,207</u>
Liabilities and Equity		
312	Account payable	<u>\$ 21,945</u>
310	Total current liabilities	<u>21,945</u>
300	Total liabilities	<u>21,945</u>
Equity		
509.3	Restricted Fund Balance	38,601
512.3	Unassigned Fund Balance	<u>1,080,661</u>
513	Total equity - net position	<u>1,119,262</u>
600	Total liabilities and equity	<u>\$ 1,141,207</u>

See notes to Financial Data Schedule.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
FINANCIAL DATA SCHEDULE - RQ-016
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2025**

Income Statement		
<u>Line Item Number</u>	<u>Description</u>	<u>Amount</u>
Revenues		
70600	HUD PHA operating grants	\$ 2,521,119
71100	Investment Income-Unrestricted	45,505
71400	Fraud recovery	4,784
71500	Other revenue	7,946
70000	Total revenues	<u>2,579,354</u>
Expenses		
	<i>Administrative:</i>	
91100	Administrative salaries	69,455
91500	Employee benefit contributions	28,414
91900	Other	163,872
91000	Total operating - administrative	<u>261,741</u>
97300	Housing assistance payments	2,185,529
90000	Total expenses	<u>2,447,270</u>
10000	<i>Excess (deficiency) of total revenues over (under) total expenses</i>	<u>\$ 132,084</u>

See notes to Financial Data Schedule.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
FINANCIAL DATA SCHEDULE - RQ-016
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM
FOR THE YEAR ENDED JUNE 30, 2025

Memo Account Information

11170	Administrative fee equity	\$ <u>1,080,661</u>
11180	Housing assistance payments equity	\$ <u>38,601</u>
11190	Unit months available	<u>4,644</u>
11210	Number of unit months leased	<u>2,932</u>

See notes to Financial Data Schedule.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
NOTES TO FINANCIAL DATA SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

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
AUTONOMOUS MUNICIPALITY OF GUAYNABO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

Federal Grantor/Pass Through Grantor Program Title	Assistance Listing 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			\$ 2,521,119
Direct Program:				
Covid-19 - Community Development Block Grant - Entitlement Grants	14.218			1,510
Community Development Block Grant	14.218			572,447
Urban Development Action Grant	14.221			1,171
Pass-through the Department of Housing of Puerto Rico:				
Community Development Block Grant - CDBG-DR	14.218			658,572
HOME Investment Partnership Program	14.239			90,701
Pass-through Municipality of San Juan:				
Housing Opportunity for Persons with AIDS	14.241			20,021
Subtotal U.S. Department of HUD				<u>3,865,541</u>
U.S. Department of Health and Human Services (HHS)				
Head Start-Cluster				
Head Star	93.600			11,158,447
Early Head Star	93.600			<u>2,864,628</u>
				14,023,075
Pass-through the Puerto Rico Elderly Commission:				
Special Programs for Aging Title III, Part C, Nutrition Services	93.045			285,583
Subtotal U.S. Department of HHS				<u>14,308,658</u>
U.S. Department of Agriculture				
Direct Program:				
Community Facilities Loans and Grants	10.766			263,995
Pass-through Puerto Rico Department of Education:				
Child and Adult Care Food Program	10.558			<u>621,997</u>
Subtotal U.S. Department of Agriculture				<u>885,992</u>
U.S. Department of Labor				
Pass-through Puerto Rico Department of Economic Development and Commerce				
WIOA Cluster				
Adult	17.258			1,569,821
Youth Activities	17.259			895,905
Dislocated Workers	17.278			<u>2,456,651</u>
Subtotal U.S. Department of Labor				<u>4,922,377</u>
U.S. Department of Treasury				
Direct Program:				
Coronavirus Relief Fund	21.019			<u>292,375</u>
Subtotal U.S. Department of Treasury				<u>292,375</u>
U.S. Department of Homeland Security				
Pass-Through the Central Office for Recovery, Reconstruction and Resiliency (COR3)				
Hazard Mitigation Grant Program	97.039			150,500
Disaster Grants - Public Assistance	97.036			<u>3,005,545</u>
Subtotal U.S. Department of Homeland Security				<u>3,156,045</u>
U.S. Department of Transportation				
Pass-through the P.R. Traffic Safety Commission				
Guaynabo Community Traffic Safety Program				
Federal Transit Enforcement	N/AV			58,638
Urbanized Area Formula Grants	20.507			<u>1,357,323</u>
Subtotal U.S. Department of Transportation				<u>1,415,961</u>
U.S. Department of Justice				
Justice Forfeiture Program	N/AV			322
Victims of Crime Assistance	16.575			37,988
Public Safety Partnership and Community Policing Grant	16.710			<u>177,658</u>
Subtotal U.S. Department of Justice				<u>215,968</u>
TOTAL				<u>\$ 29,062,917</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF GUAYNABO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2025. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net position of the Municipality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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.

INTERNAL CONTROL AND COMPLIANCE

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Autonomous Municipality of Guaynabo (the Municipality) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 24, 2026. Our report on the basic financial statements includes a qualified opinion on the Governmental Activities.

Report on 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 (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2025-001 that we consider to be significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Guaynabo’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion.

The Municipality’ Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Municipality of Guaynabo ’s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Municipality of Guaynabo ’s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

Carolina, Puerto Rico
March 24, 2026



DLLC422-920
Autonomous Municipality of Guaynabo

Aquino, De Córdova, LLC
by Edward González-Green
LIC. # 3171

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Autonomous Municipality of Guaynabo’s (the Municipality) compliance with the types of compliance requirements identified as subject to audit 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, 2025. The Autonomous Municipality of Guaynabo’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Municipality’s 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, 2025.

Basis for Opinion on Each Major Federal Program

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, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Municipality’s and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Municipality’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, regulations, rules, provisions of contracts or grant agreements applicable to Municipality's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Municipality's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Municipality's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Municipality's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Municipality's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Municipality's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Government Auditing Standards requires the auditor to perform limited procedures on the Municipality's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Carolina, Puerto Rico
March 24, 2026



DLLC422-921
Autonomous Municipality of Guaynabo

Aquino, De Cordova, LLC
by Eduardo B. Rivera-Green
Lic. # 3171

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

Section I. Summary of audit results:

Part I- Financial Statements

1. Type of auditor's report issued:

<u>Opinion Units</u>	<u>Type of Opinions</u>
Governmental activities	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
Workforce Investment and Opportunities Act Fund	Unmodified
Other Governmental Funds	Unmodified

Internal control over financial reporting:

2. Material weaknesses identified	Yes	X	No
3. Significant deficiencies identified not considered to be material weaknesses?	X	Yes	No
4. Noncompliance material to financial statements noted?	Yes	X	No

Part II- Federal Awards

Internal control over major programs:

1. Significant deficiencies identified?	Yes	X	No
2. Significant deficiencies reported as material weaknesses?	Yes	X	No
3. Type of auditors' reported on compliance for major programs:	X	Unmodified opinion Adverse opinion	Qualified opinion Disclaimer opinion
4. Audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	Yes	X	No

5. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start and Early Head Start
20.507	Urbanized Area Formula Grants Program
10.558	Child and Adult Food Care Program
Workforce Investment and Opportunities Act cluster:	
17.258	Adult program
17.259	Youth Activities
17.278	Dislocated Workers

6. Dollar threshold used to distinguish between Type A and Type B programs:

\$871,860

7. Auditee qualified as low-risk?	Yes	X	No
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

SECTION II – FINANCIAL STATEMENTS FINDING

FINDING NUMBER	2025-001
REQUIREMENT	Financial Statement property account balances must exist and be accurate.
TYPE OF FINDING	Significant Deficiency
CONDITION	The Municipality adjusted its prior year capital assets balance by \$63 million approximately.
CRITERIA	Chapter IV, Article 2.017 of State Act Number 107 of August 14, 2020 states that the Municipality should maintain updated property accounting records.
CAUSE	Capital assets balances were not accounted for accurately in prior years.
EFFECT	Capital assets balances at June 30, 2024 were overstated.
RECOMMENDATION	We recommend to the Municipality that in order to keep capital assets subsidiaries accurate in timely manner, should: <ul style="list-style-type: none">• frequently monitors capital assets subsidiaries details• maintains communication with construction department to get the current status and impairment on real property• monitors reconciliation on project status with the accounting records
PRIOR YEAR FINDING	n/a
VIEWS OF RESPONSIBLE OFFICIAL AND PLANNED CORRECTIVE ACTION PLAN	Refer to Municipality's Corrective Action Plan

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF FINDING AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**

SECTION III – FEDERAL AWARDS FINDING AND QUESTIONED COSTS

Our audit disclosed no findings that are required to be reported herein under the Uniform Guidance.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF GUAYNABO
SCHEDULE OF PRIOR YEAR FINDING AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025**



**Gobierno de Puerto Rico
MUNICIPIO AUTÓNOMO DE GUAYNABO**

Prior year finding

The following schedule contains the original number and title of each of the findings reported under *Government Auditing Standards* and the Uniform Guidance. The following schedule indicates the current status of the prior year's audit findings:

Finding Number	Finding	Condition	Current Status
2024 - 001	GASB 73	The Puerto Rico Employees Retirement System has not issued audited financial statements for total pension liability and its related deferred inflows and outflows.	Corrected on current period.
2024 - 002	GASB 75	The Puerto Rico Employees Retirement System has not issued audited financial statements for total other post employments benefits liability and its related deferred inflows and outflows.	Corrected on current period.
2024-003	93.600 HeadStart Cluster- Reporting	During our Reporting Test, we noted that forms SF-425, Federal Financial Reports were submitted late.	Corrected on current period.


Ivette Báez Hernández
Finance Director


CPA Carlos García Rosado
Internal Audit Director

Date: March 27, 2025

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below on whether the electronic submission of certain information agrees with the related hard copy documents within the audit reporting package. The municipality of Guaynabo's is responsible for the accuracy and completeness of the electronic submission.

Municipality of Guaynabo's has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to determine whether the electronic submission of certain information agrees with the related hard copy documents within the audit reporting package. Additionally, the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC) has agreed to and acknowledged that the procedure performed are appropriate for its purpose. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

We compared the electronic submission of the items listed in the "UFRS Rules Information" column with the corresponding printed documents listed in the "Hard Copy Documents" column. The associated findings from the performance of our agreed-upon procedure indicate agreement or non-agreement of the electronically submitted information and hard copy documents as shown in the attached chart.

We were engaged by Municipality of Guaynabo's to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to *Government Auditing Standards* issued by the Comptroller general of the United States. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on whether the electronic submission of the items listed in the "UFRS Rule Information" column agrees with the related hard copy document within the audit reporting package. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Municipality of Guaynabo's and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

We were engaged to perform an audit in accordance with the *OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (OMB Uniform Guidance)*, by Municipality of Guaynabo's as of and for the year ended June 30, 2025- and have issued our reports thereon dated March 24, 2026. The information in the "Hard Copy Documents" column was included within the scope or was a by-product of that audit. Further, our opinion on the fair presentation of the supplementary information dated March 24, 2026, was expressed in relation to the basic financial statements of Municipality of Guaynabo's taken as a whole.

A copy of the reporting package required by the OMB Uniform Guidance, which includes the auditor's reports, is available in its entirety from Municipality of Guaynabo's. We have not performed any additional auditing procedures since the date of the audit reports. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

The purpose of this report on applying the agreed-upon procedures is solely to describe the procedure performed on the electronic submission of the items listed in the "UFRS Rule Information" column and the associated findings, and not to provide an opinion or conclusion. Accordingly, this report is not suitable for any other purpose.

Carolina, Puerto Rico
March 24, 2026



DLLC422-922

Autonomous Municipality of Guaynabo

Aquino, De Córdova, LLC
by Edward González-Green
Lic. # 3171

**ATTACHMENT TO INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

UFRS Rule Information	Hard Copy Documents	Findings
Balance Sheet and Revenue and Expense (data lines 111 to 13901)	Financial Data Schedules (i.e Supplement Schedules)	Agrees
Footnotes (data element G5000-010)	Footnotes to Audited Basic Financial Statements	Agrees
Type of Opinion on the Financial Data Schedule (data element G3100-040)	Auditor's Supplemental Report on Financial Data Schedule	Agrees
Audit Findings Narrative (data element G5200-010)	Schedule of Findings and Questioned Costs	Agrees
General Information (data element series G2000, G2100, G2200, G9000, G9100)	OMB Data Collection Form	Agrees
Financial Statement Report information (data element G3000-010 to G3000-050)	Schedule of Findings and Questioned Costs, Part 1 and OMB Data Collection Form	Agrees
Federal Program Report Information (data element G4000-020 to G4000-040)	Schedule of Findings and Questioned Costs, Part 1 and OMB Data Collection Form	Agrees
Type of Compliance Requirement (G4200-020 & G4000-030)	OMB Data Collection Form	Agrees
Type of Compliance Requirement (G4200-020 & G4000-030)	Basic Financial Statements (inclusive of auditor reports)	Agrees



Gobierno de Puerto Rico
MUNICIPIO AUTÓNOMO DE GUAYNABO

Corrective action plan

Finding Number	Finding and Condition	Condition	Management Concurrence Status
2025 - 001	Capital Assets- The Municipality adjusted its capital assets balance by \$63 million, approximately.	To correct this situation, we adopt procedures to reconcile the construction in progress subsidiary with the project management system held by Public Works Department, in order to identify the projects completed in the fiscal period and make the corresponding reclassification entries to the permanent asset subsidiary. Internal Audit will review in the fulfillment of such procedure. Implementation Date: Implemented Responsible Official: Mrs. Ivette Báez, Finance Director	Concurred


Ivette Báez Hernández
Finance Director


CPA Carlos García Rosado
Internal Audit Director

Date: March 27, 2026