

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

MUNICIPIO DE SAN GERMAN
AUDITORÍA 2007-2008
30 DE JUNIO DE 2008



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

***FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT***

FISCAL YEAR ENDED JUNE 30, 2008



***Hon. Isidro Negrón - Irizarry
Mayor***

***Mrs. Eli Eida Ortiz
Finance Director***

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FISCAL YEAR ENDED JUNE 30, 2008**

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and PR Society of Certified Public Accountants

José D. Román Toro, CPA, President

PO Box 3043
Yauco PR 00698-3043
Tel. (787) 856-6220
Fax (787) 856-6233

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the
Municipal Assembly
Municipality of San Germán, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of San Germán, Puerto Rico**, as of and for the year ended June 30, 2008, which collectively comprise the Municipality of San Germán, Puerto Rico's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Municipality of San Germán, Puerto Rico's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

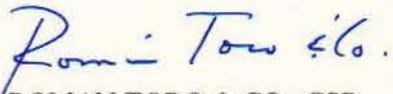
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Germán, Puerto Rico, as of June 30, 2008, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008, on our consideration of the Municipality of San Germán, Puerto Rico's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 52 through 54, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of San Germán, Puerto Rico's basic financial statements. The financial schedule data is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Municipality of San Germán, Puerto Rico. The financial schedule data and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


ROMAN TORO & CO., CSP
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
December 29, 2008

Stamp #2373216 was affixed to
the original of this report

MANAGEMENT DISCUSSION AND ANALYSIS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

As management of the Municipality of San German ("the Municipality"), we offer readers of the Municipality's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our basic financial statements presented in this report.

FINANCIAL HIGHLIGHTS

Highlights for Government-wide Financial Statements

The government-wide financial statements report information about the Municipality as a whole using the economic resources measurement focus and accrual basis of accounting:

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2008 by \$34,147,177 (net assets).
- Revenues increased by 3% and expenses increased 10% in comparison with year 2007.
- Net change in net assets amounted to \$643,525 a decrease of 66% with respect to prior year's net change.

Highlights for Fund Financial Statements

Detailed information about the Municipality's most significant funds is found in the funds financial statements, which use the current financial resources measurement focus and modified accrual basis of accounting:

- At June 30, 2008, a net change of \$876,578 in the fund balances of the Municipality's governmental funds resulted in a reported combined ending fund balances of \$8,112,894. Approximately 14% of the total combined fund balances is unreserved.
- The General Fund reported an excess of expenditures and other financing uses over revenues and other financing sources of \$303,487 and an unreserved fund balance of \$1,109,895. Unreserved fund balance decreased 16% from prior year.

General Financial Highlights

- The investment in capital assets as of June 30, 2008 was \$38,456,023 (net of depreciation).
- Long term debt decreased to \$14,347,678.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$55,439.

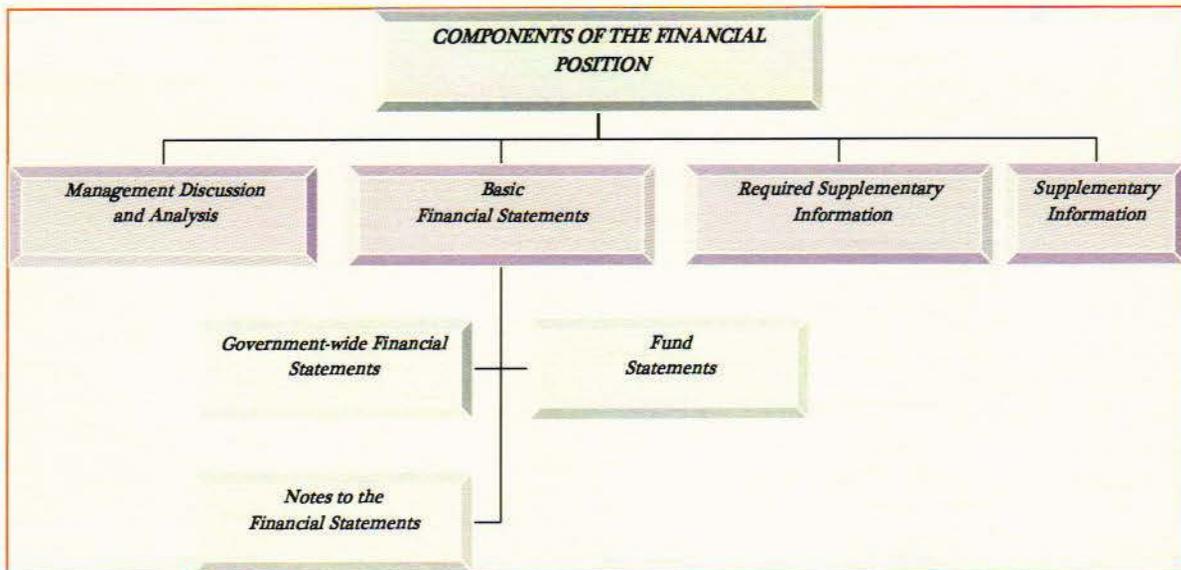
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's basic financial statements comprise three components: (1) management discussion and analysis (presented here), (2) basic financial statements, and (3) required supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

- *Government-Wide Financial Statements*

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement – the statement of net assets – presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the Municipality's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement – the statement of activities – presents information showing how the net assets changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

The government-wide statements reports as governmental activities the Municipality's basic services such as public works, sanitation, public safety, culture and recreation, health, welfare, 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.

- ***Fund Financial Statements***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well on balances of expendable resources available at year end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that complies with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to the financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The supplementary information includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The following table presents a summary of the Statements of Net Assets as of June 30, 2008 and 2007:

TABLE 1

<i>Summary Statement of Net Assets As of June 30,</i>		
	Governmental Activities	
	2008	2007
Assets		
Current and other assets	\$ 14,554,304	\$ 14,044,669
Capital assets	38,456,023	38,944,673
Total assets	\$ 53,010,327	\$ 52,989,342
Liabilities		
Current and other liabilities	\$ 4,515,472	\$ 5,105,625
Long term liabilities	14,347,678	14,380,065
Total liabilities	18,863,150	19,485,690
Net assets		
Invested in capital assets, net of related debt	29,444,618	29,865,361
Restricted	6,808,757	5,342,128
Unrestricted (deficit)	(2,106,198)	(1,703,837)
Total net assets	\$ 34,147,177	\$ 33,503,652

Net assets (assets over liabilities) may serve over time as a useful indicator of a government's financial position. Net assets for the year increased 2% with respect to prior year.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure); less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purpose of retiring debt.

Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets are the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

As of June 30 2008, the Municipality presented an unrestricted net assets deficit. This deficit primarily arises from long term obligations such as compensated absences and debts to CRIM for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as invested in capital assets, net of related debt section of net assets. Therefore, are reported as part of the unrestricted net assets section.

Changes in net assets

The following table summarizes the changes in net assets for the years ended June 30, 2008 and 2007:

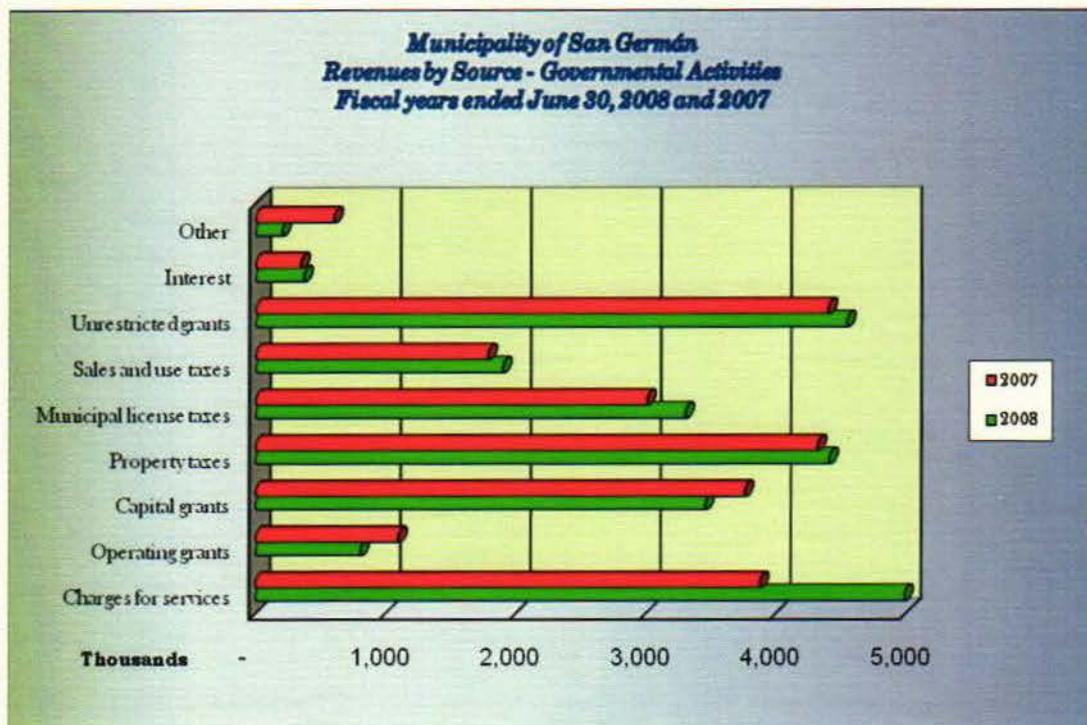
TABLE 2

*Summary of Changes in Net Assets
As of June 30.*

	Governmental Activities	
	2008	2007
Program revenues:		
Fees, fines and charges for services	\$ 4,987,064	\$ 3,875,878
Operating grants and contributions	804,776	1,096,001
Capital grants and contributions	3,456,070	3,758,620
General revenues:		
Property taxes	4,408,873	4,319,042
Municipal license taxes	3,300,674	3,007,838
Sales and use taxes	1,896,619	1,784,337
Grants and contributions not restricted to specific programs	4,541,339	4,400,150
Interest	368,457	345,550
Other	200,869	443,149
Net gain on sale and disposition of capital assets	-	156,135
Total revenues	23,964,741	23,186,700
Expenses:		
General government	5,744,099	5,535,290
Public safety	1,510,096	1,523,056
Public works	10,681,782	9,466,752
Sanitation	1,409,702	1,378,811
Health	786,763	786,763
Welfare	1,900,118	1,112,948
Culture and recreation	480,139	622,628
Education	295,646	294,568
Interest on long term debt	512,871	556,854
Total expenses	23,321,216	21,277,670
Change in net assets	643,525	1,909,030
Net assets-beginning of year, as restated	33,503,652	31,594,622
Net assets-end of year	\$ 34,147,177	\$ 33,503,652

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2008**

FIGURE 1



Approximately 21% of the Municipality's revenues came from fees and charges for services, 18% from property taxes, 19% from unrestricted grants, 14% from capital grants and 14% from municipal license tax. The Municipality's expenses cover a range of services. The largest expenses are public works and sanitation representing approximately 52%, and general government with 25%.

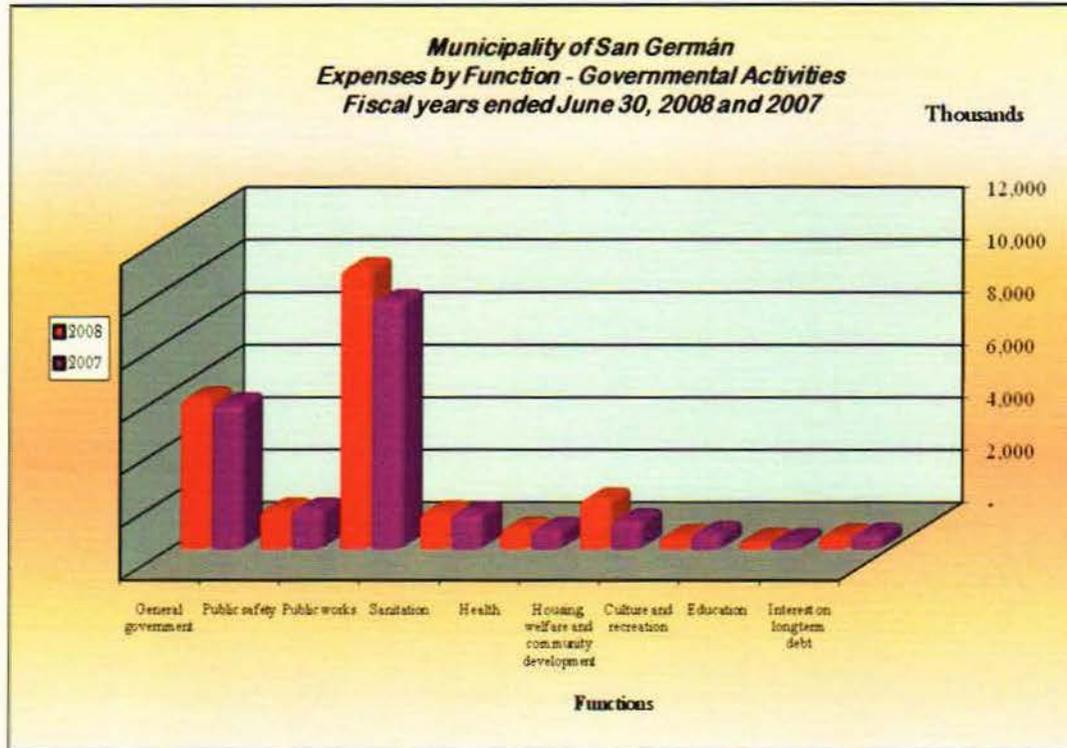
With respect to prior year, revenues reported a net increase of approximately 3%. This net increase is primarily the result of: (1) a 29% increase in fees and charges for services mostly due to an increase in the compensation provided by the Puerto Rico Electric Power Authority (PREPA) and to the recognition in this fiscal year of the management fees received from the P.R. Public Housing Administration (PRPHA) for the administration of two PRPHA's low-income housing developments; (2) a 27% decrease in operating grants due to a reduction in the grants received from Commonwealth and Federal governmental agencies; (3) a 10% increase in municipal license taxes; (4) and a 66% decrease in other revenue due to inclusion in prior year financial statements of Public Order Code grant revenue which was collected during 2007-2008 and of a net gain in the sale and disposal of fixed assets, which in the current year financial statements was a net loss.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

FIGURE 2



Expenses increased 10% in comparison with the 2007 year. The most significant increases occurred in housing, welfare and community development, public works and general government, with 71%, 13% and 4%, respectively, which were offset by a 23% decrease in culture and recreation and an 8% decrease in interest on long term debt. The significant increase in housing, welfare and community development is due to the recognition of the operating costs of the two PRPHA's low-income housing projects administered by the Municipality starting on October 2007. As noted previously, the minimal net increase in revenues and the significant net increase in expenses caused a decrease of 66% in the net change in net assets with respect to the prior year's net change.

The following table focuses on the cost of each of the Municipality's largest programs as well as each program's net cost (total cost less fees generated by the programs and program -specific intergovernmental aid):

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

TABLE 3

<i>Net Cost of Municipality's Governmental Activities</i>				
<i>Fiscal years ended June 30,</i>				
Functions/Programs	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
General government	\$ 5,744,099	\$ 5,535,290	\$ (3,884,096)	\$ (3,497,596)
Public safety	1,510,096	1,523,056	(1,454,349)	(1,382,843)
Public works	10,681,782	9,466,752	(4,324,765)	(3,529,001)
Sanitation	1,409,702	1,378,811	(1,409,702)	(1,378,811)
Health	786,763	786,763	(786,763)	(786,763)
Housing, welfare and community development	1,900,118	1,112,948	(975,720)	(662,948)
Culture and Recreation	480,139	622,628	(437,778)	(511,233)
Education	295,646	294,568	(287,262)	(241,122)
Other	512,871	556,854	(512,871)	(556,854)
	<u>\$ 23,321,216</u>	<u>\$ 21,277,670</u>	<u>\$ (14,073,306)</u>	<u>\$ (12,547,171)</u>

The net cost of services was fully covered by other general revenues such as property and municipal license taxes among others.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2008, the governmental funds reported combined ending fund balances of \$8,112,894, a net increase of \$876,578 in comparison with the prior year. This increase was caused primarily by a net change in the general fund of (\$303,487); \$516,316 in the debt service fund; (\$298,665) in the Commonwealth Legislative Resolutions and \$946,463 in the other governmental funds. Of the total combined fund balances, \$1,109,895 (14%) constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. For the year ended June 30, 2008, the fund balance of the general fund decreased by \$303,487 when compared with the prior year. The principal components of the net increase of \$600,673 in revenues are: an increase of \$232,575 in municipal license tax; an increase of \$221,758 in rental income and charges for services (mainly due to the compensation provided by PREPA); a \$225,596 increase in other revenue (mainly the result of Public Order Code revenue collected during the year); a decrease of \$203,470 in sales and use tax; and an \$120,043 increase in intergovernmental revenues. The net increase in expenditures of \$871,229 is mainly due to an increase of \$827,720 in public works (mainly due to an increase in fuel prices, electricity utility service charges and in payroll and fringe benefits); an increase of \$199,869 in housing, welfare and community development (due mainly to an increase in the donations provided by the Municipality) and a \$186,521 decrease in general government.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal period 2007-2008 presented an increase of 4% with respect to prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year budget revenues were decreased by \$214,169 due to a net negative estimate adjustment made by CRIM to the property tax and intergovernmental (subsidy) revenues. Budget expenditures were increased by \$187,361. Actual revenues were more than the revised budgeted revenues by \$726,127 (net). The most significant positive variances were in intergovernmental revenue (\$585,606), sales and use tax (\$213,803) and municipal license taxes (\$194,324), which were offset by a negative variance of \$286,342 in property taxes and \$169,370 in rental income and charges for services. The negative variance in property taxes was the result of the negative estimate adjustment made by CRIM of \$464,872, which was offset by the inclusion of \$178,530 in property tax from prior years. Of the \$585,606 positive variance in intergovernmental revenue, \$569,411 corresponds to the governmental subsidies provided by CRIM, which offsets the negative variance in property taxes explained earlier. The negative variance in rental income and charges for services is due mainly to a negative variance in construction permits of \$373,720, which was offset by a positive variance of \$177,823 in the compensation provided by PREPA.

A negative variance of (\$65,423) between revised budget and actual expenditures was due mainly to a net decrease of \$78,944 in general government, and a net increase of (\$167,292) in public works expenditures due mainly to utility charges in excess of budget. Actual expenditures exceeded actual revenues by \$55,439.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$38,456,023 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net decrease of approximately 1% over the prior year.

TABLE 4

<i>Capital Assets, net As of June 30,</i>		
	Governmental Activities	
	2008	2007
Non-depreciable assets:		
Land	\$ 5,958,106	\$ 5,946,956
Construction in progress	2,084,557	2,298,233
Depreciable assets:		
Buildings and Buildings Improvements	16,751,196	16,546,444
Equipment	3,703,694	4,016,782
Roads	4,594,613	4,786,159
Bridges	5,363,857	5,350,099
Total	\$ 38,456,023	\$ 38,944,673

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

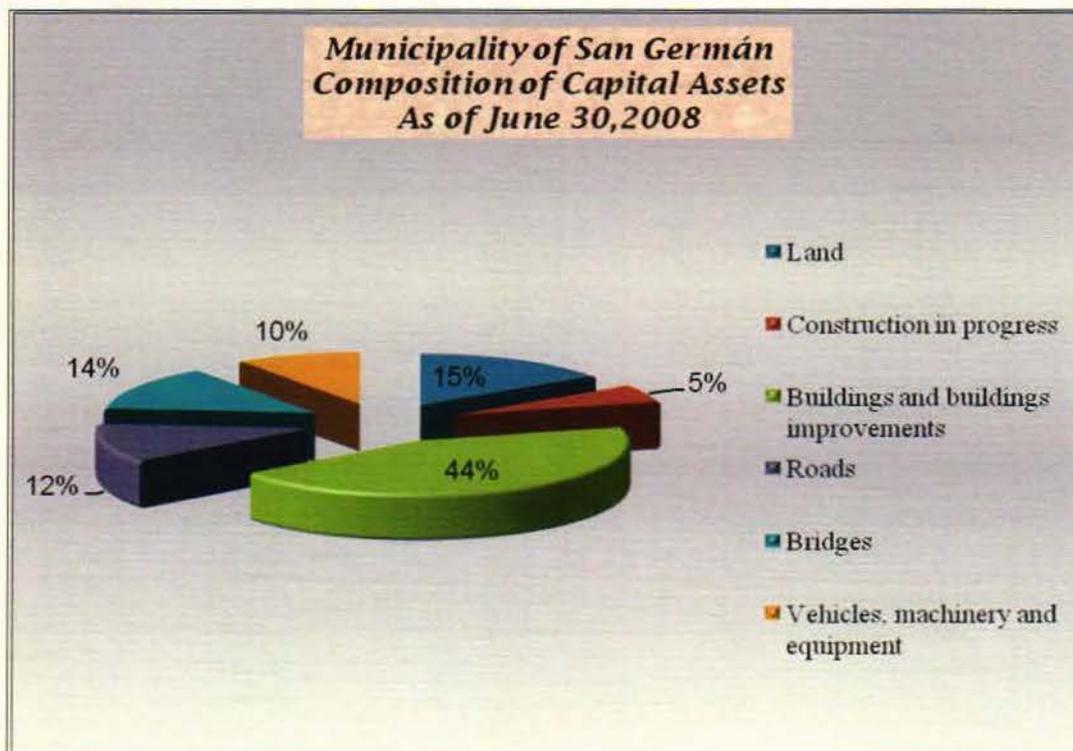
The Municipality's major capital projects that were still in construction as of June 30, 2008 are as follows:

- Construction of a Recreational Center for the Elderly
- Construction of a sanitary sewer system
- Construction of "Paseo del Estudiante"
- Various roads improvements

These projects will be financed through Federal and Commonwealth grants, funds from the Commonwealth Legislature, general obligation bonds and Municipal funds.

In addition, the Municipality acquired equipment amounting to \$473,036, mainly vehicles and heavy equipment.

Capital assets composition as of June 30, 2008 follows:



More detailed information about the Municipality's capital assets is presented in Note F to the financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

Long term debt

At year-end, the Municipality maintains an outstanding balance of \$14,347,678 in general and special bonds and notes, a decrease of 0.2% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2008 and 2007:

TABLE 5

<i>Outstanding Long-term Debt As of June 30,</i>			
	Governmental Activities		
	2008	2007	
General and special obligation bonds and notes	\$ 9,622,568	\$ 10,115,568	
Note payable to CRIM – LIMS	225,679	282,099	
Note payable to CRIM – prior years delinquent accounts	115,744	120,567	
Compensated absences	3,605,478	3,180,043	
Christmas Bonus	305,410	303,481	
Claims and judgments	40,604	-	
Payable to CRIM – property tax advances	-	65,402	
Bond anticipation loan	-	100,000	
Note payable to PRASA	-	30,650	
Note payable to ERS	120,440	182,255	
Payable to PREPA	311,755	-	
Total	\$ 14,347,678	\$ 14,380,065	

The general and special obligation bonds and notes decreased by \$493,000. During the year, a new general obligation bond was issued in the amount of \$320,000 for the payment of the outstanding balance of the bond anticipation loan, which increased to \$320,000 during 2007-2008. In addition, the increase in the notes payable with Puerto Rico Electric Power Authority (P.R.E.P.A.) is the result of an excess of the annual energy charges incurred by the Municipality over the contribution in lieu of taxes ("CELI") for the fiscal year 2006-2007, which was recorded both a long term debt and an account receivable from the agency. More detailed information about the Municipality's long term liabilities is presented in Note H to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's selected and appointed officials considered many factors when setting the fiscal year 2008-2009 budget. One of these factors is the economy. Among economic areas considered are the population growth estimates, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate now stands at 13.4%, which compares with the Commonwealth rate of 11.8%.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2008

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2008-2009 are \$16,900,334, an increase of approximately 6% with respect to prior year estimates. Budgeted expenditures are expected to rise accordingly to the increase of budgeted revenues. In addition to the estimated budget for the general fund, the Municipality has submitted Federal and Commonwealth funds proposals for welfare as well as for capital improvements and public works funds.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality's Director of Finance at P.O. Box 85, San German, Puerto Rico 00683.

BASIC FINANCIAL STATEMENTS

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

Assets		Governmental Activities
Cash and cash equivalents		\$ 3,478,323
Receivables (net of allowance for uncollectibles) (Note C)		
Municipal license taxes		92,721
Sales and use taxes		215,097
Rents and construction permits		309,997
Due from: (Note D)		
Commonwealth Government		1,045,732
Federal Government		197,880
Restricted Assets:		
Cash and cash equivalents		4,923,102
Cash with fiscal agents		4,251,680
Deferred charges		39,772
Capital assets: (Note F)		
Land and construction in progress		8,042,663
Other capital assets, net		<u>30,413,360</u>
Total capital assets, net		<u>38,456,023</u>
Total assets		<u>\$53,010,327</u>

Continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

**STATEMENT OF NET ASSETS, Continued
JUNE 30, 2008**

Liabilities

Accounts payable and accrued liabilities	\$ 1,027,613
Interest payable	249,394
Due to:	
Commonwealth Government (Note D)	133,900
Deferred revenues	3,104,565
Long term liabilities (Note H)	
Due within one year	1,774,010
Due in more than one year	<u>12,573,668</u>
Total liabilities	<u>\$18,863,150</u>

Net assets

Invested in capital assets, net of related debt	29,444,618
Restricted for:	
Capital projects	1,761,111
Debt service	2,669,938
Other specified purposes	2,377,708
Unrestricted (deficit)	<u>(2,106,198)</u>
Total net assets	<u>\$34,147,177</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008

Functions	Expenses	Program Revenues			Net (Expenses) Revenues and Change in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 5,744,099	\$1,691,502	\$ 168,501	-	\$(3,884,096)
Public safety	1,510,096	-	55,747	-	(1,454,349)
Public works	10,681,782	2,900,947	-	3,456,070	(4,324,765)
Sanitation	1,409,702	-	-	-	(1,409,702)
Health	786,763	-	-	-	(786,763)
Welfare	1,900,118	394,615	529,783	-	(975,720)
Culture and recreation	480,139	-	42,361	-	(437,778)
Education	295,646	-	8,384	-	(287,262)
Interest on long-term debt	512,871	-	-	-	(512,871)
Total government activities	<u>\$23,321,216</u>	<u>\$4,987,064</u>	<u>\$ 804,776</u>	<u>\$3,456,070</u>	<u>\$(14,073,306)</u>
			General Revenues:		
			Taxes:		
			Property taxes		\$ 4,408,873
			Municipal license taxes		3,300,674
			Sales and use taxes		1,896,619
			Grants and contributions not restricted to specific programs		4,541,339
			Interest		368,457
			Other		200,869
			Total general revenues		<u>14,716,831</u>
			Change in net assets		643,525
			Net assets, beginning of year		<u>33,503,652</u>
			Net assets, end of year		<u>\$34,147,177</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2008

	Major funds					
	General	Debt Service	Commonwealth Legislative Resolutions	Permanent Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$3,478,323	\$ -	\$ -	\$ -	\$ -	\$3,478,323
Receivables (net of allowance for uncollectibles)						
Municipal license taxes	92,721	-	-	-	-	92,721
Sales and use taxes	161,102	53,995	-	-	-	215,097
Rents and construction permits	288,839	-	-	-	21,158	309,997
Due from:						
Commonwealth Government	857,242	87,314	-	-	101,176	1,045,732
Federal Government	-	-	-	-	197,880	197,880
Other funds (Note E)	1,225,402	-	-	-	300	1,225,702
Advances to other funds (Note E)	42,079	-	-	-	-	42,079
Restricted Assets:						
Cash and cash equivalents	-	-	1,268,120	1,560,086	2,094,896	4,923,102
Cash with fiscal agents	-	2,776,904	10,296	-	1,464,480	4,251,680
Total assets	<u>\$6,145,708</u>	<u>\$2,918,213</u>	<u>\$1,278,416</u>	<u>\$1,560,086</u>	<u>\$3,879,890</u>	<u>\$15,782,313</u>
Liabilities and fund balances						
Liabilities:						
Accounts payable and accrued liabilities	\$542,936	-	\$ 59,100	-	\$425,577	\$ 1,027,613
Matured bonds and interest payable	-	849,233	-	-	-	849,233
Due to:						
Commonwealth Government	133,900	-	-	-	-	133,900
Other funds (Note E)	300	-	17,098	-	1,208,304	1,225,702
Advances from other funds (Note E)	-	-	16,091	-	25,988	42,079
Deferred revenues (Note G)	3,901,605	80,374	-	-	408,913	4,390,892
Total liabilities	<u>4,578,741</u>	<u>929,607</u>	<u>92,289</u>	<u>-</u>	<u>2,068,782</u>	<u>\$ 7,669,419</u>
Fund balances:						
Reserved for:						
Encumbrances	\$318,258	-	-	-	-	\$ 318,258
Debt Service	-	1,988,606	-	-	-	1,988,606
Capital projects	-	-	239,559	1,560,086	480,361	2,280,006
Other specified purposes	96,735	-	946,568	-	1,330,747	2,374,050
Advances	42,079	-	-	-	-	42,079
Unreserved	1,109,895	-	-	-	-	1,109,895
Total fund balances	<u>1,566,967</u>	<u>1,988,606</u>	<u>1,186,127</u>	<u>1,560,086</u>	<u>1,811,108</u>	<u>8,112,894</u>
Total liabilities and fund balances	<u>\$6,145,708</u>	<u>\$2,918,213</u>	<u>\$1,278,416</u>	<u>\$1,560,086</u>	<u>\$3,879,890</u>	<u>\$15,782,313</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total governmental fund balances:		\$ 8,112,894
Amounts reported for the governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		38,456,023
Other assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Deferred charges-bond issue costs		39,772
Other assets are not available to pay for current period expenditures and therefore are deferred in the funds:		
Receivables:		
CRIM – Property taxes (General Fund)	288,064	
Municipal license taxes	92,721	
Sales and use taxes (General Fund)	16,369	
Construction permits	15,668	
Rent - properties	69,037	
Rent – land lots	117,597	
P.R. Department of Family - Law No. 105	16,459	
P.R. Department of Treasury – Christmas bonus reimbursement	141,853	
P.R. Electric Power Authority (PREPA)	311,755	
CRIM – Property taxes (Debt Service Fund)	64,005	
Sales and use taxes (Debt Service Fund)	16,369	
OCAM – Public Order Code	26,633	
Federal Grants – CDBG	11,888	
Federal Grants – ESG	39,825	
P.R. Department of Labor – Law No. 52	10,177	
P.R. Department of Labor – Law No. 82 and “P.R. en Forma”	<u>47,907</u>	1,286,327
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:		(85,161)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General and special obligation bonds and notes	8,937,568	
Compensated absences	3,605,478	
Claims and judgments	40,604	
Note payable to CRIM – delinquent accounts	115,744	
Note payable to CRIM – LIMS	225,679	
Payable to PREPA	311,755	
Christmas bonus	305,410	
Note payable to ERS	<u>120,440</u>	<u>(13,662,678)</u>
Net assets of governmental activities		<u>\$ 34,147,177</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2008**

	Major funds				Other Governmental Funds	Total Governmental Funds
	General	Debt Service	Commonwealth Legislative Resolutions	Permanent Capital Improvements		
Revenues:						
Taxes:						
Property taxes (Note I)	\$ 2,755,924	\$1,604,031	-	-	-	\$ 4,359,955
Municipal license taxes	3,224,183	-	-	-	-	3,224,183
Sales and use taxes	1,580,867	283,014	-	-	-	1,863,881
Intergovernmental:						
Commonwealth Government (Note J)	4,540,443	-	-	-	2,959,709	7,500,152
Federal Government	-	-	-	-	1,468,099	1,468,099
Rental income and changes for services	4,010,940	-	-	-	465,301	4,476,241
Fines and forfeitures	8,056	-	-	-	-	8,056
Interest	204,941	64,955	554	80,055	17,952	368,457
Other	308,497	-	-	-	62,306	370,803
Total Revenues	<u>16,633,851</u>	<u>1,952,000</u>	<u>554</u>	<u>80,055</u>	<u>4,973,367</u>	<u>23,639,827</u>
Expenditures:						
Current:						
General government	\$ 4,988,407	-	-	-	\$ 247,941	\$ 5,236,348
Public safety	1,377,020	-	-	-	30,661	1,407,681
Public works	6,599,828	-	150,303	64,104	1,501,776	8,316,011
Sanitation	1,301,190	-	-	-	23,504	1,324,694
Health	786,763	-	-	-	-	786,763
Welfare	620,174	-	1,185	-	1,254,335	1,875,694
Culture and recreation	387,140	-	-	-	75,311	462,451
Education	289,040	-	-	-	6,606	295,646
Capital outlays	204,306	-	145,194	-	1,423,920	1,773,420
Debt service:						
Principal	-	863,000	-	-	-	863,000
Interest	-	485,664	-	-	-	485,664
Total expenditures	<u>16,553,868</u>	<u>1,348,664</u>	<u>296,682</u>	<u>64,104</u>	<u>4,564,054</u>	<u>\$22,827,372</u>
Excess (deficiency) of revenues over expenditures	79,983	603,336	(296,128)	15,951	409,313	812,455

Continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS, Continued
FISCAL YEAR ENDED JUNE 30, 2008**

	Major funds					Total Governmental Funds
	General	Debt Service	Commonwealth Legislative Resolutions	Permanent Capital Improvements	Other Governmental Funds	
Other financing sources (uses):						
Proceeds from general obligation bond anticipation note	-	-	-	-	\$220,000	\$ 220,000
Proceeds from general obligation bonds	-	-	-	-	320,000	320,000
Payment of bond anticipation note	-	-	-	-	(320,000)	(320,000)
Payment of PREPA debt	(155,877)	-	-	-	-	(155,877)
Transfers - in	127,647	-	463	-	354,777	482,887
Transfers - (out)	(355,240)	(87,020)	(3,000)	-	(37,627)	(482,887)
Total Other Financing sources (uses)	<u>(383,470)</u>	<u>(87,020)</u>	<u>(2,537)</u>	<u>-</u>	<u>537,150</u>	<u>64,123</u>
Net change in fund balances	(303,487)	516,316	(298,665)	15,951	946,463	876,578
Fund balance at beginning of year	<u>1,870,454</u>	<u>1,472,290</u>	<u>1,484,792</u>	<u>1,544,135</u>	<u>864,645</u>	<u>7,236,316</u>
Fund balances at end of year	<u>\$1,566,967</u>	<u>\$1,988,606</u>	<u>\$1,186,127</u>	<u>\$1,560,086</u>	<u>\$1,811,108</u>	<u>\$8,112,894</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008**

Net change in fund balances – total governmental funds		\$876,578
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 as depreciation expense. This is the amount by which depreciation (\$2,233,184) exceed capital outlays (\$1,483,027) in the current year:		(459,763)
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net assets differs from the change in fund balance by the cost of the disposed asset:		(178,478)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:		
CRIM – Property taxes (General Fund)	\$288,064	
Municipal license tax	76,491	
Sales and use taxes (General Fund)	16,369	
Construction Permits	15,668	
Rent	69,037	
Others	221,788	
P.R. Department of Treasury – Law No. 52	10,177	
P.R. Department of Treasury – Christmas bonus reimbursement	141,853	
P.R. Electric Authority (PREPA)	311,755	
CRIM – Property taxes (Debt service Fund) (current)	64,005	
Sales and use taxes (Debt Service Fund)	16,369	
OCAM – Public Order Code (current year)	1,530	
Federal Grants – CDBG	10,848	
Donated capital assets	<u>138,198</u>	1,382,152
Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
CRIM – Property taxes (Debt Service Fund) (prior year)	(187,234)	
Construction excise taxes	-	
CRIM – Property taxes (Debt Service Fund) (prior year)	(115,917)	
Construction permits	-	
Rent	(17,320)	
Other	(80,895)	
P.R. Department of Treasury – Law No. 52	(213,298)	
OCAM – Public Order Code (prior year)	(299,911)	
Federal Grants – CDBG	(1,706)	
P.R. Department of Treasury – Christmas bonus reimbursement (prior year)	<u>(140,957)</u>	(1,057,238)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds principal payments (net change)		50,000
Proceeds from general obligation bonds is another financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets:		(320,000)
Proceeds from long term debt is another financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets:		(220,000)

Continue

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES, Continued
FISCAL YEAR ENDED JUNE 30, 2008**

Repayment of long-term debt consumes the current financial resources of governmental funds, but has not effect on net assets of governmental activities:

General obligation bonds and notes	813,000	
Other long term liabilities	<u>1,240,033</u>	2,053,033

Governmental funds report the effect of bond issuance costs as expenditure when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences:

Amortization of bond issuance costs		(5,316)
-------------------------------------	--	----------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Claims and judgments	(40,604)	
Accrued interest (net change)	3,203	
Compensated absences	(667,000)	
P.R. Electric Authority (PREPA)	(467,632)	
Christmas bonus	<u>(305,410)</u>	<u>(1,477,443)</u>

Change in net assets of governmental activities

\$ 643,525

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality of San German ("the Municipality") was founded in 1573. The Municipality is governed by the executive and the legislative branch elected for a four year term during the general elections in Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen (14) members of the Municipal Legislature. The Municipality engages in a comprehensive range of services to the community such as: general government administration, public works, health, environmental control, education, public security, welfare, housing, community development and culture and recreation activities.

The 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.

1. *Financial reporting entity*

The financial reporting entity included in this report consists of the financial statements of the Municipality of San German (primary government). To fairly present the financial position and the results of operations of the financial reporting entity, management must determine whether its reporting entity consists of only the legal entity known as the primary government or one or more organizations called component units. The inclusion of a potential component unit in the primary government's reporting entity depends on whether the primary government is financially accountable for the potential component unit or on whether the nature and significance of the relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be 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 in a manner similar to the presentation of the Municipality's balances and (b) discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

The basic criteria for deciding financial accountability are any one of the following:

- a. Fiscal dependency of the potential component unit on the primary government, or
- b. The primary government appoints a voting majority of the potential component unit's governing body and,
 - 1) The primary government can impose its will on the potential component unit and/or,
 - 2) A financial benefit / burden exist between the primary government and the potential component unit.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition, a legally separate, tax-exempt organization should be discretely presented as a component unit of a reporting entity if *all* of the following criteria are met:

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

Other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Professional judgment is applied in determining whether the relationship between a primary government and other organizations for which the primary government is not accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

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

2. *Basis of presentation, measurement focus and basis of accounting*

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

Management Discussion and Analysis

This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to analysis the private sector provides in their annual reports.

Basic financial statements

Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-wide statements

The government-wide statements consist of a Statement of Net Assets and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. 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.

The Statement of Net Assets 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 and capital grants, and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, licenses and permits; 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. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred. Revenues on both operating and capital grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For certain 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 deferred revenues in the government-wide statements. Deferred revenues arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed and the revenue is recognized.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Municipality has elected not to follow subsequent statements and interpretations issued by the FASB after November 30, 1989.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund 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, liabilities, reserves, 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 the general fund, one 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, liabilities, revenues or expenditures or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users or based on the Municipality's official's criteria, if the fund is particularly important to financial statement users (for Commonwealth Legislature Resolutions and Permanent Capital Improvement Funds).

The Municipality reports the following major governmental funds:

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

Debt Service Fund: Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Commonwealth Legislature Resolutions Fund: The Commonwealth Legislative Resolutions Fund is used to account for grants from the Commonwealth's Legislature.

Permanent Capital Improvements Fund: The Permanent Improvement fund is used to account for the moneys received from the \$575,000,000 in 2006 Series A Public Improvement Bonds issued by Commonwealth Government. The financial resources received by this fund are used for the restoration of the downtown area and the construction of an educational park.

Governmental funds 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 60 days of the end of the current fiscal period.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenues susceptible to accrual include property taxes (recognized as revenues in the year for which they are levied); municipal license taxes and sales and use taxes (recognized when the underlying exchange has occurred and time requirements are met) and interest. 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, monies must be expended 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. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible to accrual criteria is met.

The Municipality reports deferred revenues in the governmental funds statements which arise when potential revenue does not meet both measurable and available criteria for recognition in the current period (in the government-wide statements revenue is recognized as soon as it is earned regardless of its availability). Deferred revenues also arise when resources are received before the Municipality has a legal claim to them or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the revenue recognition criteria is met, or when the Municipality has a legal claim to the resources, the liability for deferred revenues is removed from the combined balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following: 1) payments of principal and interest on general long term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) 2) 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).

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Notes to Financial Statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information:

Required supplementary information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

3. *Cash, cash equivalents (unrestricted and restricted) and restricted cash with fiscal agents*

Cash and cash equivalents consists of cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the general and other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

4. *Receivables and due from governmental entities*

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions.

Amounts due from federal government represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded programs. Amounts reported in the debt service fund represent property and sales tax revenues of current fiscal year collected by the CRIM (property tax) and the Puerto Rico Department of Treasury (sales tax) on the subsequent fiscal year.

5. *Interfund receivables and payables*

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. *Inventories*

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Assets, as management believes is not significant.

7. *Deferred bond issuance costs*

Bond issuance costs are reported as deferred charges and amortized 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.

8. *Capital assets*

Capital assets of the primary government, which include property, plant, equipment, and infrastructure, (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the Statement of Net Assets. Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Municipality maintains a threshold level of \$50 or more for capitalizing vehicles, machinery and equipment. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. All capital assets, other than land are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Buildings	40
Improvements	10-20
Vehicles, machinery and equipment	5-10
Infrastructure	2-50

In accordance with current accounting standards capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

9. *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 Assets, consists of general and special obligation bonds, liabilities for compensated absences, claims and judgments, and long-term liabilities to other governmental entities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

10. *Compensated absences*

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness).

The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

11. *Fund balances and Net Assets*

a. Fund balances:

In the fund financial statements, governmental funds report reserved and unreserved fund balances. Reservations of fund balance represent portions of the fund balance that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

Encumbrances:	Represent future expenditures under purchase orders and other commitments, which generally will become liabilities in future periods as the goods or services are received.
Debt Service:	Represents net assets available to finance future debt service payments.
Capital Projects:	Represent amounts to be used for future expenditures for capital projects under contracts and other commitments. These commitments generally will become liabilities in future periods as the projects are completed.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other specified purposes: Represent amounts to be used for future expenditures of Federal and Commonwealth's grants as well as funds reserved through enabling legislation passed by the government itself, to be used to finance activities other than construction or capital improvement commitments

Advances: Represents the non-current portion of interfund loans.

b. Net assets

In the government-wide statements net assets are segregated into three categories:

Invested in capital assets, net of related debt: Consists of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.

Restricted net assets: Represents net assets (restricted assets net of related debt) that are subject to restrictions beyond the Municipality's control. 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 (including enabling legislation passed by the government itself).

Unrestricted net assets: Represent net assets that do not meet the definition of net assets Invested in capital assets, net of related debt or restricted. Unrestricted assets are 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. Designations are not reported on the face of the statement of net assets.

12. *Interfund transactions*

The Municipality reports certain transactions as transfers, which are legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

13. *Risk financing*

The Puerto Rico Department of Treasury (PRDT) acts as an agent, obtaining and determining the coverage for the municipalities of Puerto Rico. The coverage for the Municipality of San German consists of professional, public responsibility, property and theft, auto and fidelity bond coverage.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Insurance policies costs are allocated by PRDT among all the municipalities of Puerto Rico. Payment of the Municipality's insurance premiums is monthly deducted from advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Workers compensation insurance is also deducted from the monthly advances by the CRIM. Settled cases have not exceeded insurance coverage for any of the past three years.

14. *Use of estimates*

The preparation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

15. *Future adoption of accounting pronouncements*

The GASB has issued the following statements, which the Municipality has not yet adopted:

	<u>Statement</u>	<u>To be Adopted in Fiscal year ended,</u>
45	Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions	June 30, 2009
49	Accounting and Financial Reporting for Pollution Remediation Obligations	June 30, 2009
51	Accounting and Financial Reporting for Intangible Assets	June 30, 2010
52	Land and Other Real Estate Held as Investments by Endowments	June 30, 2009
53	Accounting and Financial Reporting for Derivative Instruments	June 30, 2010

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B – CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico.

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal deposit insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. At year end the Municipality's bank balance in commercial banks amounts to \$8,976,731. Deposits in governmental banks (all of which are uninsured and uncollateralized), are exposed to custodial credit risk. At year end the Municipality's bank balance in governmental banks amounts to \$4,252,028.

NOTE C – RECEIVABLES

1. *Municipal license taxes*

Municipal License taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15. During the Fiscal year ended June 30, 2008 the tax rates were as follows:

Financial business - 1.50% of gross revenues
Other organizations - .50% of gross revenues

Municipal license tax receivable and corresponding deferred revenues as of June 30, 2008 follows:

<u>Description</u>	<u>Amount</u>
Total municipal license tax receivable:	\$ 416,404
Less: allowance for uncollectibles	<u>(323,683)</u>
	<u>\$ 92,721</u>

As required by current standards, the \$92,721 net balance is recorded as deferred revenue since there were no collections within the availability period.

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Resources are intended to finance the operations of the applicable fiscal year. At this moment the Municipality recognizes revenues on municipal license taxes. A discount of 5% is allowed when full payment is made on or before April 15. Since this time requirement, cash collected in advance, which totals \$2,848,541 is recorded as deferred revenue as of June 30.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE C – RECEIVABLES - Continued

2. *Sales and use taxes*

On July 4, 2006 the Commonwealth Legislature approved Act No. 117 (“Act 117”) which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth’s sales and use tax.

Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained in Subtitle BB of the Code. The municipal sales and use tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The municipal sales and use tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within Municipal limits. The Municipal Legislature approved the imposition of the municipal sales and use tax on November 1, 2006 with Ordinance No. 36 Series 2006-2007, effective on November 15, 2006.

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 (“Act 80”) which amend Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT). Act 80 also provides for restrictions on the use of the sales tax, which is required be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

Amount collected by the PRDT (the remaining .5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (“GDB”), subject to restrictions imposed and distributed as follows:

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

The Municipal Legislature approved Ordinance No. 15 Series 2007-2008 to amend Municipal Ordinance No. 36 Series 2006-2007 to conform to dispositions of Act 80.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE C – RECEIVABLES - Continued

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. Of the total \$215,098 Municipal sales and use tax receivable, \$129,502 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts; \$31,600 and \$53,995 represents amounts of "Municipal Development Fund" and "Municipal Redemption Fund" respectively represents the tax collected on June by individuals, organizations and entities but paid by the PRDT subsequent to June 30. The amount of \$32,738 is recorded as deferred revenue since is not available as required by current standards.

3. Rents and construction permits

A detail of rents and construction permits' receivable as of June 30, 2008 follows:

<u>Description</u>	<u>Amount</u>
Rent-land lots	\$ 241,731
Rent-properties	193,823
Other	17,319
	<u>452,873</u>
Less: allowance for uncollectibles	(164,034)
	<u>\$ 288,839</u>

Of the total amount of \$288,839 the Municipality recorded \$202,302 as deferred revenue in the governmental funds statements since they are not available as required by current standards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D - DUE FROM (TO) GOVERNMENTAL ENTITIES

1. Amounts due from governmental entities as of June 30, 2008 follows:

<u>Description</u>	<u>Commonwealth Government</u>	<u>Federal Government</u>
Municipal Revenue Collection Center (CRIM) – property taxes and intergovernmental subsidy (general fund)	\$ 403,634	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	141,853	-
P.R. Electric Power Authority (PREPA)	311,755	-
Municipal Revenue Collection Center (CRIM) – property taxes (debt service fund)	87,314	-
Office of Commissioner of Municipal Affairs – Public Order Code	26,633	-
P.R. Department of Labor – Law No. 52	10,177	-
P.R. Department of Labor – Law No. 82	14,180	-
P.R. Department of Family (ADFAN)– Law No. 105	16,458	-
P.R. Department of Labor – “P. R. en Forma”	33,728	-
U.S. Department of Housing and Urban Development – Emergency Shelter Grant	-	43,652
Office of Commissioner of Municipal Affairs – CDBG	-	124,937
U.S. Department of Housing and Urban Development – CDBG	-	27,435
U.S. Department of Housing and Urban Development – HCV	-	1,856
	<u>\$ 1,045,732</u>	<u>\$ 197,880</u>

See note G for detail of amounts due from Governmental Entities recorded as deferred revenue.

2. Amounts due to governmental entities as of June 30, 2008 follows:

<u>Description</u>	<u>Commonwealth Government</u>
Employees' Retirement System of the Government of P.R. (ERS)	\$ 91,699
P.R. Industrial Development Company (PRIDCO)	15,520
P.R. Department of Labor – unemployment	12,136
P.R. Aqueduct and Sewer Authority (PRASA)	10,570
Others	3,975
	<u>\$ 133,900</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E - INTERFUND TRANSACTIONS

1. Due from/to other funds:

Amounts due from/to other funds represent advances to other funds for payroll and payroll taxes expenditures, as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Commonwealth Legislative Resolutions:	\$ 17,098
	Other governmental funds:	
	Public and Indian Housing	223,862
	Rural Development Corporation	206,643
	DTOP	107,162
	CDBG	98,591
	OMEP	92,430
	FEMA	84,080
	Others	395,536
		<u>\$ 1,225,402</u>
Other governmental funds:		
Others	General Fund	\$ 300
		<u>\$ 300</u>

2. Advances to (from) other funds:

Advances to (from) other funds represent long term advances to other funds by the general fund for payroll, payroll taxes and other expenditures, as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Commonwealth Legislative Resolutions:	\$ 16,091
	Other governmental funds:	
	Special Communities	25,061
	Others	927
		<u>\$ 42,079</u>

3. Transfers in (out):

Transfers between individual funds were made for operational purposes. Transfers includes (1) interest earned on restricted cash with fiscal agents in the debt service fund and operating and capital improvement loans in other governmental funds which is transferred to the general fund (2) interest in Commonwealth Legislature Resolutions funds which is transferred to the general fund and, (3) principal and interest payments of long term debt transferred from the general fund to the debt service fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2008 is as follows:

	<u>Beginning balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance June 30, 2008</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,946,956	\$ 11,150	\$ -	\$ 5,958,106
Construction in progress	2,298,233	533,067	746,743	2,084,557
Total capital assets not being depreciated:	8,245,189	544,217	746,743	8,042,663
Capital assets, being depreciated:				
Buildings and improvements	22,738,438	784,970	-	23,523,408
Equipment	9,617,649	473,036	937,114	9,153,571
Roads	11,532,672	677,465	66,300	12,143,837
Bridges	6,913,404	190,068	-	7,103,472
Total capital assets being depreciated	50,802,163	2,125,539	1,003,414	51,924,288
Less accumulated depreciation for:				
Buildings and improvements	6,191,994	580,218	-	6,772,212
Equipment	5,600,867	612,122	763,112	5,449,877
Roads	6,746,513	864,534	61,823	7,549,224
Bridges	1,563,305	176,310	-	1,739,615
Total accumulated depreciation	20,102,679	2,233,184	824,935	21,510,928
Total capital assets being depreciated, net	30,699,484	(107,645)	178,479	30,413,360
Governmental activities capital assets, net	<u>\$ 38,944,673</u>	<u>\$ 436,572</u>	<u>\$ 925,222</u>	<u>\$ 38,456,023</u>

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

Governmental activities:

General government	\$ 105,509
Public safety	102,414
Public works	1,898,139
Sanitation	85,008
Culture and recreation	17,689
Welfare	24,425
Total depreciation expense, governmental activities	<u>\$ 2,233,184</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G - DEFERRED REVENUES – GOVERNMENTAL FUNDS

Deferred revenues for amounts due from Commonwealth Government represent revenues not available as required by current standards and for amounts due from Federal Grants represent resources received before allowable expenditures are incurred or not available as required by current standards. A detail of these balances follows:

<u>Description</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>
Municipal license taxes	\$ 2,848,541	\$ -	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	141,853	-	-
P.R. Department of Treasury – sales and use taxes, Municipal Development and Municipal Redemption Funds	16,369	16,369	-
Municipal Revenue Collection Center (CRIM) – property taxes	288,064	64,005	-
P.R. Electric Power Authority (PREPA)	311,755	-	-
Rents and construction permits	202,302	-	-
Others	92,721	-	-
P.R. Public Housing Administration (PRPHA) – Public and Indian Housing	-	-	256,023
Office of Commissioner of Municipal Affairs – Public Order Code	-	-	26,632
P.R. Department of Family (ADFAN) – Law No. 105	-	-	16,459
P.R. Department of Labor – Law No. 52	-	-	10,177
P.R. Department of Labor – Law No. 82	-	-	14,180
P.R. Department of Labor – “ P.R. en Forma”	-	-	33,728
U.S. Department of Housing and Urban Development – ESG	-	-	39,826
U.S. Department of Housing and Urban Development – CDBG	-	-	11,888
	<u>\$ 3,901,605</u>	<u>\$ 80,374</u>	<u>\$ 408,913</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT

1. Summary of long-term debt activity

The following summarizes activity in long-term debt for the fiscal year ended June 30, 2008:

	<u>Balance at July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2008</u>	<u>Due within one year</u>
<u>Governmental activities:</u>					
General and special obligation bonds and notes payable:					
General obligation bonds	\$ 5,468,000	\$ 320,000	\$ 250,000	\$ 5,538,000	\$ 278,000
Public improvement bonds	2,812,568	-	288,000	2,524,568	309,000
General obligation notes	<u>1,835,000</u>	<u>-</u>	<u>275,000</u>	<u>1,560,000</u>	<u>295,000</u>
Total general and special obligation bonds and notes payable:	<u>10,115,568</u>	<u>320,000</u>	<u>813,000</u>	<u>9,622,568</u>	<u>882,000</u>
<u>Other long term liabilities:</u>					
General obligation bond anticipation note	100,000	220,000	320,000	-	-
Note payable to CRIM- LIMS	282,099	-	56,420	225,679	59,827
Note payable to CRIM- financing of delinquent accounts	120,567	-	4,823	115,744	4,823
Note payable to PRASA	30,650	-	30,650	-	-
Note payable to ERS	182,255	-	61,815	120,440	58,335
Compensated absences	3,180,043	667,000	241,565	3,605,478	267,134
Christmas Bonus	303,481	305,410	303,481	305,410	305,410
Claims and judgments	-	40,604	-	40,604	40,604
Payable to PREPA	-	467,632	155,877	311,755	155,877
Payable to CRIM- property tax advances	<u>65,402</u>	<u>-</u>	<u>65,402</u>	<u>-</u>	<u>-</u>
Total other long term liabilities:	<u>4,264,497</u>	<u>1,700,646</u>	<u>1,240,033</u>	<u>4,725,110</u>	<u>892,010</u>
	<u>\$ 14,380,065</u>	<u>\$ 2,020,646</u>	<u>\$ 2,053,033</u>	<u>\$ 14,347,678</u>	<u>\$ 1,774,010</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT - Continued

2. General and special obligation bonds and notes payable

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2008 amount to \$9,622,568. All these bonds and notes are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to levy and collect property taxes for payment of principal and interest on bonds and notes. A debt service fund has been established for the bonds and notes at GDB with the proceeds of those property taxes, whereby sufficient funds must be set aside in order to cover the projected debt service requirement, before any new bonds are issued. Principal and interest payments of long term debt issued for operational purposes are made through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM).

A detail of the general and special obligation bonds and notes as of June 30, 2008 follows:

	<u>Outstanding Amount</u>
1988 public improvement bonds of \$400,000 due in annual installments ranging from \$7,000 to \$32,000 through January 1, 2013; bearing interest at 6.13%	\$ 137,000
1989 public improvement bonds of \$765,000 due in annual installments ranging from \$16,000 to \$60,000 through January 1, 2011; bearing interest at 6.37%	167,341
1991 public improvement bonds of \$616,000 due in annual installments ranging from \$16,000 to \$45,000 through January 1, 2012; bearing interest at 5.00%	165,227
1996 public improvement bonds of \$3,500,000 due in annual installments ranging from \$70,000 to \$330,000 through July 1, 2015; bearing interest at rates ranging from 4.70% to 6.58% (6.12% at June 30, 2008)	2,055,000
2000 general obligation bonds of \$2,100,000 due in annual installments ranging from \$85,000 to \$235,000 through July 1, 2013; bearing interest at rates ranging from 2.70% to 7.81% (3.88% at June 30, 2008)	1,175,000
2002 general obligation bonds of \$130,000 due in annual installments ranging from \$5,000 to \$10,000 through July 1, 2026; bearing interest at rates ranging from 2.70% to 5.60% (3.88% at June 30, 2008)	100,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT - Continued

2002 general obligation bonds of \$830,000 due in annual installments ranging from \$10,000 to \$75,000 through July 1, 2026; bearing interest at rates ranging from 2.70% to 5.60% (3.88% at June 30, 2008)	750,000
2003 general obligation bonds of \$320,000 due in annual installments ranging from \$9,000 to \$22,000 through January 1, 2030; bearing interest at 4.25%	320,000
2004 general obligation bonds of \$355,000 due in annual installments ranging from \$5,000 to \$30,000 through July 1, 2028; bearing interest at rates ranging from 2.36% to 5.28% (4.24% at June 30, 2008)	330,000
2005 special obligation note of \$455,000 due in annual installments ranging from \$55,000 to \$75,000 through July 1, 2011; bearing interest at rates ranging from 3.27% to 4.62% (4.24% at June 30, 2008)	280,000
2006 general obligation bonds of \$3,000,000 due in annual installments ranging from \$67,000 to \$194,000 through January 1, 2031; bearing interest at 4.50%	2,863,000
2006 special obligation note of \$1,695,000 due in annual installments ranging from \$200,000 to \$285,000 through July 1, 2012; bearing interest at rates ranging from 4.23% to 5.32% (4.24% at June 30, 2008)	1,280,000
	\$ 9,622,568

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2008 follows:

June 30,	Principal	Interest	Total
2009	\$ 882,000	\$ 470,560	\$ 1,352,560
2010	936,000	426,179	1,362,179
2011	989,341	376,540	1,365,881
2012	998,227	325,293	1,323,520
2013	936,000	274,481	1,210,481
2014-2018	1,958,000	931,599	2,889,599
2019-2023	1,034,000	639,898	1,673,898
2024-2028	1,260,000	338,617	1,598,617
2029-2031	629,000	61,713	690,713
Totals	\$ 9,622,568	\$ 3,844,880	\$ 13,467,448

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT - Continued

3. Other long-term liabilities

**Outstanding
Amount**

Note payable to CRIM (LIMS) – On July 3, 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$539,645 for the payment of the Municipality’s share of the cost of a management information system (**LIMS**) acquired by the CRIM for the management of taxpayer’s properties located in Puerto Rico. The note is payable in semiannual installments of \$36,188, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of municipal equalization fund send to the Municipality by the Municipal Revenue Collection Center (CRIM). Debt service requirements in future years are as follows:

\$ 225,679

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 59,827	\$ 12,254	\$ 72,081
2010	63,439	8,624	72,063
2011	67,270	4,774	72,044
2012	35,143	872	36,015
Totals	<u>\$ 225,679</u>	<u>\$ 26,524</u>	<u>\$ 252,203</u>

Note payable to CRIM (Financing of delinquent accounts)– On March 26, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$470,818, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a non-revolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032. As described in Law No. 146, interest payments for the first 5 years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Also, during the first 5 years any collection from those delinquent accounts was credited to the loan principal. After the 5 year period the loan outstanding balance was restructured for a 25 years period. Debt service requirements in future years are as follows:

\$ 115,744

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT - Continued

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 4,823	\$ 12,022	\$ 16,845
2010	4,823	11,722	16,545
2011	4,823	11,422	16,245
2012	4,823	11,122	15,945
2013	4,823	10,822	15,645
2014-2018	24,113	49,611	73,724
2019-2023	24,113	42,112	66,225
2024-2028	24,113	34,613	58,726
2029-2032	19,290	22,291	41,581
Totals	<u>\$ 115,744</u>	<u>\$ 205,737</u>	<u>\$ 321,481</u>

Note payable to Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). – On June 29, 2007 the Board of Trustees of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) approved Resolution No. 2007-02 authorizing the ERS to establish payment plans with employers related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions to retired employees of the Municipality. This obligation was recognized by the Municipality prior to June 30, 2007. On October 19, 2007 the Municipality refinanced this debt on a long term basis through a \$198,355 non-interest bearing note with the ERS. The note has an imputed interest rate is 6.48% and was recorded at its present value of \$182,255 net of an unamortized discount of \$16,100. The note is payable in annual installments of \$66,118 (including interest), is due on February 26, 2010 and will be repaid with unrestricted funds. Debt service requirements in future years are as follows:

\$ 120,440

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 58,335	\$ 7,783	\$ 66,118
2010	62,105	4,014	66,119
Totals	<u>\$ 120,440</u>	<u>\$ 11,797</u>	<u>\$ 132,237</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H - LONG TERM DEBT - Continued

Compensated absences - includes accrued vacations, sick leave benefits 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. \$ 3,605,478

Christmas Bonus - represent the accrued portion corresponding to fiscal year 2007-2008 of the Christmas bonus to be paid in December 2008. \$ 305,410

Claims and judgments - represent the final settlement of legal cases paid subsequent to June 30, 2008. The awarded amount will be paid with unrestricted funds. \$ 40,604

Payable to PREPA - As required by Act No. 83 of May 2, 1941 the Puerto Rico Electric Power Authority ("PREPA") should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax ("CELI") based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. For Fiscal year 2006-2007 the Municipality's annual energy charges amounts to \$2,179,027 but the CELI obligation determined by PREPA amounted to \$1,711,395. As communicated by PREPA the excess amount of \$467,632 was recorded as a payable to the Municipality and will be amortized over a 3 year period against the corresponding receivable for the same amount. As of June 30, 2008 the outstanding amount of \$311,755 is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows: \$ 311,755

June 30	Principal
2009	\$ 155,877
2010	155,878
Totals	\$ 311,755

\$ 4,725,110

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE I - PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2008 are 7.03% for personal property and 9.03% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	2.00%	2.00%
Total tax rate:	7.03%	9.03%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	<u>6.83%</u>	<u>8.83%</u>

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government. 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. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long term debt. For the fiscal year 2007-2008 a net receivable of \$288,064 was determined as a result of the preliminary settlement. This amount is recorded in the general fund as a receivable but also as deferred revenue since is not available as required by current standards.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE J - INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the General Fund are comprised of Christmas bonus reimbursement of \$256,895 and revenues for municipal equalization fund of \$4,283,548 received from the Commonwealth of Puerto Rico. Amount recorded in other governmental funds consists of Federal and Commonwealth governmental grants.

NOTE K - RETIREMENT PLAN

1. Plan description

Regular employees of the Municipality contribute to a cost sharing multiple employer defined benefit retirement plan, administered by the Employee's Retirement System of the Government of Puerto Rico as its Instrumentalities (ERS). ERS covers all regular full time public employees working for the central government, the municipalities and certain public corporations not having their own retirement systems. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members of occupational and no occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS. Law No. 305 of September 24, 1999 amended the Act No. 447 of 1951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE K - RETIREMENT PLAN - Continued

Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

2. Funding policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributes 8.275% of gross salary. The Municipality is required to contribute 9.275% of gross salary.

The Municipality's actual contribution for the current and the previous three fiscal years, which is equal to the required contribution, follows:

<u>Fiscal year ended:</u>	<u>Law No. 447</u>	<u>System 2000</u>
2008	\$ 225,548	\$ 223,491
2007	\$ 233,799	\$ 217,278
2006	\$ 247,535	\$ 224,966

NOTE L - POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note K, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonus and death benefits. For the fiscal year ended, costs related to these post employment benefits amounted to \$93,546. These benefits are recorded as expenditures when paid in the general fund.

NOTE M - COMMITMENTS

1. Operating leases

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. Rental expenses amounted approximately \$132,950. Management believes that the summary of the future minimum rental commitments under noncancelable equipment leases with terms exceeding one year is not significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE M – COMMITMENTS - Continued

2. Construction

The Municipality has commitments at June 30, 2008 of approximately \$ 2,246,424 for construction, improvements or renovation of certain municipal facilities.

NOTE N - CONTINGENCIES

1. Federal and State grants

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to perform.

2. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. Of those not to be covered by insurance, the legal counsel has determined that it would be reasonably possible that in two cases there may be an unfavorable outcome with an estimated loss ranging from \$25,000 to \$75,000. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

NOTE O - FUND BALANCE RESTATEMENTS

The beginning fund balance of the Commonwealth Legislative Resolutions and certain other governmental funds has been restated to recognize corrections of accounting errors – reclassification of pool cash balances deposited in the general fund current bank account which were assigned by error to the Commonwealth Legislative Resolutions Fund. The following schedule reconciles the fund balance at July 1, 2007 as previously reported to the beginning fund balance, as restated:

Description	Commonwealth Legislative Resolutions Fund	Other Governmental Funds
Fund Balance, at beginning of year, as previously reported	\$ 1,619,401	\$ 730,036
Correction of errors	(134,609)	134,609
Fund Balance, at end of year, as restated	<u>\$ 1,484,792</u>	<u>\$ 864,645</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE P – FUND BALANCE DEFICITS

Certain special funds included as other governmental funds in the fund statements disclosed fund balance deficits as follows:

	<u>Amount</u>
Law No. 82	\$ 40,695
Law No. 105	\$ 14,622
Traffic Safety Commission	\$ 26,108
Emergency Shelter Grant	\$ 39,825
Hazard Mitigation	\$ 32,250
CDBG	\$ 16,033
HOPWA	\$ 14,095

The deficits results from the accrual of expenditures without accruing intergovernmental revenues. As required by current standards, the Municipality recorded intergovernmental revenues for grants on fund statements when all applicable eligibility requirements have been met and the resources are available.

NOTE Q – NET CHANGE IN FUND BALANCE – GENERAL FUND

The Statement of revenues, expenditures and changes in fund balance reported a net change in fund balance for the general fund in the amount of (\$ 303,487), which is composed of the following:

	<u>Amount</u>
Net change in fund balance, 01 Fund	\$ (94,098)
Net change in fund balance, other special funds (sales tax funds) included as part of the general fund:	(209,389)
	\$ (303,487)

Negative net change in fund balance in 01 Fund resulted of the effect of a fund balance readjustment of \$733,000. This represents a readjustment of current year budget with prior year's fund balance resources, approved by the Municipal Legislature. Resources to finance other special funds included as part of the general fund were provided in previous years but funds were expended in current year.

NOTE R – SUBSEQUENT EVENT

On August 22, 2008 the Municipality issued a \$996,000 special obligation note for acquisition and construction of capital assets. The note will bear interest at variable rates (LIBOR + 1.25%) and is due on July 1, 2033.

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted amounts		Actual amounts (Budgetary basis)	Variance with final budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 3,798,055	\$ 4,095,513	\$ 3,809,171	\$ (286,342)
Municipal license taxes	3,135,000	3,135,000	3,329,324	194,324
Sales and use taxes	1,150,000	1,150,000	1,363,803	213,803
Intergovernmental	3,297,646	2,786,020	3,371,626	585,606
Rental income and charges for services	4,159,312	4,159,312	3,989,942	(169,370)
Fines and forfeitures	20,000	20,000	21,538	1,538
Interest	242,000	242,000	288,654	46,654
Other	155,000	155,000	294,913	139,913
Total Revenues	<u>15,957,013</u>	<u>15,742,844</u>	<u>16,468,971</u>	<u>726,126</u>
Expenditures				
Current				
General government	5,063,437	5,141,558	5,062,614	78,944
Public safety	1,458,129	1,383,148	1,377,604	5,544
Public works	5,983,701	6,390,216	6,557,508	(167,292)
Sanitation	1,428,006	1,310,193	1,307,138	3,055
Health	786,764	786,764	786,763	1
Welfare	463,993	441,752	439,909	1,843
Culture and recreation	420,849	389,115	387,269	1,846
Education	352,134	301,629	290,992	10,637
Total expenditures	<u>15,957,013</u>	<u>16,144,374</u>	<u>16,209,797</u>	<u>(65,422)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(401,529)</u>	<u>259,174</u>	<u>660,704</u>
Other financing sources (uses)				
Transfers – in		32,986	40,627	7,641
Transfers – out		(347,599)	(355,240)	(7,641)
Total other financing sources (uses)		<u>(314,613)</u>	<u>(314,613)</u>	<u>-</u>
Readjustment from prior year fund balance (note B)		<u>733,000</u>	<u>-</u>	<u>(733,000)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses		<u>\$ 16,857</u>	<u>\$ (55,439)</u>	<u>\$ (72,296)</u>

The accompanying notes to required supplemental information are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

June 30, 2008

NOTE A – BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1981, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year end are reported in the governmental funds statements as a reservation of fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

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

NOTE B - BUDGET READJUSTMENT

During the year the approved operational budget was increased by \$ 733,000 from previous year excess fund balance. The purpose of this readjustment was to increase the amount assigned to certain expenditures in the general fund.

NOTE C - BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND, Continued
JUNE 30, 2008

NOTE C – BUDGET TO GAAP RECONCILIATION – Continued

Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):	
Budget to GAAP differences:	\$(55,439)
Entity differences:	
Non budgeted funds recorded as revenues for financial reporting purposes:	216,598
Non budgeted funds recorded as expenditures for financial reporting:	(425,987)
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis:	495,463
Revenues recorded in budgetary basis purposes but not in financial reporting	(460,161)
Expenditures recorded in budgetary basis but not for financial reporting purposes:	21,277
Expenditures recorded for financial reporting purposes but not in budgetary basis	(273,443)
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	318,258
Prior year encumbrances recorded as expenditures for financial reporting purposes:	<u>(140,053)</u>
Net change in fund balance (GAAP basis):	<u><u>\$(303,487)</u></u>

SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

SUPPLEMENTARY INFORMATION – FINANCIAL DATA SCHEDULE
BALANCE SHEET INFORMATION
JUNE 30, 2008

<u>Line Item Number</u>	ASSETS	<u>Section 8 Housing Choice Vouchers 14,871</u>
	Current Assets	
	Cash:	
111	Cash – unrestricted	\$ 11,412
113	Cash – other restricted	<u>88,745</u>
100	Total cash	<u>100,157</u>
	Accounts and notes receivables:	
121	Accounts receivable – PHA projects	453
122	Accounts receivable – HUD other projects	1,856
125	Accounts receivable – miscellaneous	3,008
128	Fraud recovery	<u>9,625</u>
120	Total receivables, net of allowance for doubtful accounts	<u>14,942</u>
144	Inter-program – due from	<u>300</u>
150	Total Current Assets	<u>115,399</u>
	Noncurrent Assets	
	Fixed assets	
164	Furniture, equipment & machinery – administration	46,825
166	Accumulated depreciation	<u>(32,643)</u>
160	Total fixed assets, net of accumulated depreciation	<u>14,182</u>
180	Total Noncurrent Assets	<u>14,182</u>
190	TOTAL ASSETS	<u>\$129,581</u>
	LIABILITIES AND EQUITY LIABILITIES	
	Current Liabilities	
312	Accounts payable < 90 days	\$ 400
322	Accrued compensated absences – current portion	3,400
345	Other current liabilities	6,473
347	Inter-program – due to	<u>12,365</u>
310	Total Current Liabilities	<u>22,638</u>
	Noncurrent liabilities	
353	Noncurrent liabilities – other	6,220
354	Accrued Compensated Absences – non current	<u>2,569</u>
350	Total Noncurrent Liabilities	<u>8,789</u>
300	TOTAL LIABILITIES	<u>31,427</u>
	EQUITY	
508.1	Invested in Capital Assets, Net of Related Debt	14,182
509	Restricted Net Assets	82,175
512.1	Unrestricted Net Assets	<u>1,797</u>
513	TOTAL EQUITY/NET ASSETS	<u>98,154</u>
600	TOTAL LIABILITIES and EQUITY/NET ASSETS	<u>\$129,581</u>

The accompanying notes are an integral part of this schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN

SUPPLEMENTARY INFORMATION – FINANCIAL DATA SCHEDULE
STATEMENT OF REVENUES AND EXPENSES INFORMATION
FISCAL YEAR ENDED JUNE 30, 2008

<u>Line Item Number</u>		<u>Section 8 Housing Choice Vouchers 14,871</u>
	REVENUES:	
706	HUD PHA operating grants	\$389,967
711	Investment income – unrestricted	11
714	Fraud recovery	4,948
715	Other revenue	<u>9,298</u>
700	TOTAL REVENUES	<u>404,224</u>
	EXPENSES	
	Administrative	
911	Administrative salaries	41,400
914	Compensated absences	2,125
915	Employee benefit contributions –administrative	10,985
916	Other operating – administrative	<u>928</u>
	Subtotal	<u>55,438</u>
	General expenses	
	Bad debt – other	<u>1,545</u>
969	TOTAL OPERATING EXPENSES	<u>56,983</u>
970	EXCESS OPERATING REVENUES OVER OPERATING EXPENSES	347,241
973	Housing assistance payments	304,335
974	Depreciation expense	<u>2,972</u>
900	TOTAL EXPENSES	<u>364,290</u>
1000	EXCESS OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ 39,934</u>
	MEMO account information	
1103	Beginning equity	58,220
1104	Prior period adjustments, equity transfers and correction of errors	-
1117	Administrative Fee Equity	15,979
1118	Housing Assistance Payments Equity	82,175
1120	Unit months available	1,008
1121	Number of units months leased	952

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

**NOTE TO SUPPLEMENTARY INFORMATION
FINANCIAL DATA SCHEDULE**

June 30, 2008

NOTE A – BASIS OF PRESENTATION

The accompanying financial data schedule (FDS) is a trial balance of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by Public Housing Authorities (PHA) to the Real Estate Assessment Center (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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number (note B)	Pass-Through Entity Identifying Number (note C)	Federal Expenditures (note A)
<u>U.S. Department of Agriculture</u>			
Water and Waste Disposal System for Rural Communities	10.760	N/A	<u>\$ 290,394</u>
<u>U.S. Department of Housing and Urban Development</u>			
Community Development Block Grant-Entitlement Grant	14.218	N/A	917,062
Passed through the Office of Commissioner of Municipal Affairs: Community Development Block Grant – State’s Program	14.228	AB-57, FC-57 FD-57	32,146
Passed through the P.R. Department of Family: Emergency Shelter Grants Program	14.231	S07DC7200001	47,478
Shelter Plus Care	14.238	N/A	2,700
Passed through the P.R. Department of Health: Housing Opportunities for persons with AIDS (HOPWA)	14.241	2008-DS 0618	13,611
Passed through the P.R. Department of Housing – (Puerto Rico Public Housing Agency “PRPHA”): Public and Indian Housing	14.850	RQ003091 RQ005145	394,055
Section 8 Housing Choice Vouchers	14.871	N/A	<u>357,647</u>
Subtotal U.S. Department of Housing and Urban Development:			<u>1,764,699</u>
<u>U.S. Department of Transportation – National Highway Traffic Safety Administration</u>			
Passed through the P.R. Department of Transportation – (Traffic Safety Commission): State and Community Highway Safety	20.600	03-03-76	<u>58,944</u>
<u>Environmental Protection Agency</u>			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	N/A	<u>3,903</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the Puerto Rico Governor’s Office – (Office of Elderly Affairs): Special Program for the Aging Title III Part C-1 and C-2 Grants for Supportive Services and Seniors Centers	93.045	N/AV	87,254
Passed through the “Instituto de Servicios Comunes Inc. (INSEC)” Community Services Block Grant	93.569	CSBG 03-04-32	<u>21,962</u>
Subtotal U.S. Department of Health and Human Services:			<u>109,216</u>
<u>U.S. Department of Homeland Security</u>			
Passed through the Puerto Rico Governor’s Office – (Governor’s Authorized Representative-GAR): Disaster Grants – Public Assistance	97.036	125-99-125	<u>34,884</u>
Total Expenditures of Federal Awards			<u>\$2,262,040</u>

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality and is presented on the modified accrual basis of accounting. Expenditures are recognized when the related liability is incurred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations". Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

NOTE C – PASS-THROUGH ENTITY IDENTIFYING NUMBER

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a subrecipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

NOTE D – RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Other Governmental Funds
10.760	\$ 290,394
14.218	917,062
14.228	32,146
14.231	47,478
14.238	2,700
14.841	13,611
14.850	394,055
14.871	357,647
20.600	58,944
66.818	3,903
93.045	87,254
93.569	21,962
97.036	34,884
Total federal awards expenditures:	2,262,040
Total nonfederal awards expenditures:	2,302,014
Total expenditures, fund statements:	\$ 4,564,054



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

Honorable Mayor and Members of the
Municipal Assembly
Municipality of San Germán, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of San Germán, Puerto Rico**, as of and for the year ended June 30, 2008, which collectively comprise the Municipality of San Germán, Puerto Rico's basic financial statements and have issued our report thereon dated December 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of San Germán, Puerto Rico's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of San Germán, Puerto Rico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality of San Germán, Puerto Rico's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality of San Germán, Puerto Rico's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality of San Germán, Puerto Rico's financial statements that is more than inconsequential will not be prevented or detected by the Municipality of San Germán, Puerto Rico's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality of San Germán, Puerto Rico's internal control.

Internal Control Over Financial Reporting, Continued

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

Compliance and Other Matters

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

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


ROMAN TORO & CO., CSP
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
December 29, 2008

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the original of this report



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

Honorable Mayor and Members of the
Municipal Assembly
Municipality of San Germán, Puerto Rico

Compliance

We have audited the compliance of **Municipality of San Germán, Puerto Rico** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Municipality of San Germán, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Municipality of San Germán, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of San Germán, Puerto Rico's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of San Germán, Puerto Rico's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Municipality of San Germán, Puerto Rico's compliance with those requirements.

In our opinion, Municipality of San Germán, Puerto Rico complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

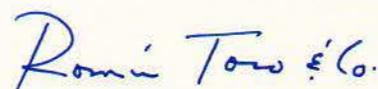
The management of Municipality of San Germán, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of San Germán, Puerto Rico's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality of San Germán, Puerto Rico's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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


ROMAN TORO & CO., CSP
LICENSE #35 - IN FORCE

Yauco, Puerto Rico
December 29, 2008

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

Internal control over financial reporting:

- Control deficiency identified? Yes None reported
 - Significant deficiency identified? Yes None reported
 - Material weakness (es) identified? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Control deficiency identified? Yes None reported
- Significant deficiency identified? Yes None reported
- Material weakness (es) identified? Yes No

Type of auditor's report issued on compliance for Major Programs:

Unqualified Opinion Qualified Opinion
 Adverse Opinion Disclaimer Opinion

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

Yes No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlement Grants
14.871	Section 8 – Rental Housing Choice Vouchers
14.850	Public and Indian Housing

Dollar threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes No

SECTION II – FINANCIAL STATEMENTS FINDINGS

No findings are reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings are reported.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN GERMAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Year	Finding Number	Finding	Number	CFDA Questioned Cost(s)	Comments
(1) Audit Findings that have been fully corrected or not noted during our audit:					
2007	2007-2	Deficiencies related to the documentation of reexaminations and the determination of tenant income and eligibility of the Section 8 program.	14.871	None.	This situation was not noted in our audit procedure performed to the program this current year.
2007	2007-3	Lack of separation of duties in the disbursement process for the Section 8 program.	14.871	None.	This situation was not noted in our audit procedure performed to the program this current year.

(2) Audit Findings not corrected or partially corrected:

NONE.

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE.

(4) Audit findings are no longer valid:

NONE.

END OF SCHEDULE