

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

**MUNICIPIO DE SAN GERMAN**  
**AUDITORÍA 2008-2009**  
30 DE JUNIO DE 2009

*San Germán*



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

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

***FISCAL YEAR ENDED JUNE 30, 2009***



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

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

*GH*  
*25/1/10*

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
FISCAL YEAR ENDED JUNE 30, 2009**

**Table of Contents**

<u>FINANCIAL SECTION</u>	<u>PAGE</u>
Independent Auditors' Report	1-2
<b>Management's Discussion and Analysis</b>	3-14
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Assets	15-16
Statement of Activities	17
<b>Governmental Funds' Financial Statements:</b>	
Balance Sheet – Governmental Funds	18
Reconciliation of the balance sheet of governmental funds to the Statement of Net Assets	19
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds	20-21
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	22-23
Notes to Basic Financial Statements	24-53
<b>Required Supplementary Information:</b>	
Budgetary Comparison Schedule – General Fund	54
Notes to Required Supplementary Information – Budgetary Comparison Schedule – General Fund	55-56
 <b><u>FEDERAL AWARDS AND SINGLE AUDIT SECTION</u></b>	
<b>Supplementary Information:</b>	
Financial Data Schedule	57-59
Note to Supplementary Information – Financial Data Schedule	60
Schedule of Expenditures of Federal Awards	61
Notes to Schedule of Expenditures of Federal Awards	62
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	63-64
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	65-66
Schedule of Findings and Questioned Costs	67
Summary Schedule of Prior Audit Findings	68



**ROMAN TORO & CO., PSC**

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Honesty - Integrity - Experience

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## 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, 2009, 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.

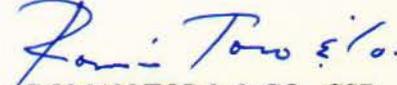
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Germán, Puerto Rico, as of June 30, 2009, and 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, 2009, 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 54 through 56, 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, 2009

Stamp #2474131 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, 2009**

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, 2009. 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 2009 by \$38,819,658 (net assets).
- Revenues increased by 23% and expenses increased 10% in comparison with year 2008.
- Net change in net assets amounted to \$3,947,220, an increase of 408% 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, 2009, a net change of (\$1,134,570) in the fund balances of the Municipality's governmental funds resulted in a reported combined ending fund balances of \$6,978,324. Approximately 2% 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 \$806,143 and an unreserved fund balance of \$167,583. Unreserved fund balance decreased 85% from prior year.

**General Financial Highlights**

- The investment in capital assets as of June 30, 2009 was \$44,929,298 (net of depreciation).
- Long term debt increased to \$15,585,154.
- On a budgetary basis, actual expenditures exceeded actual revenues by \$132,559.

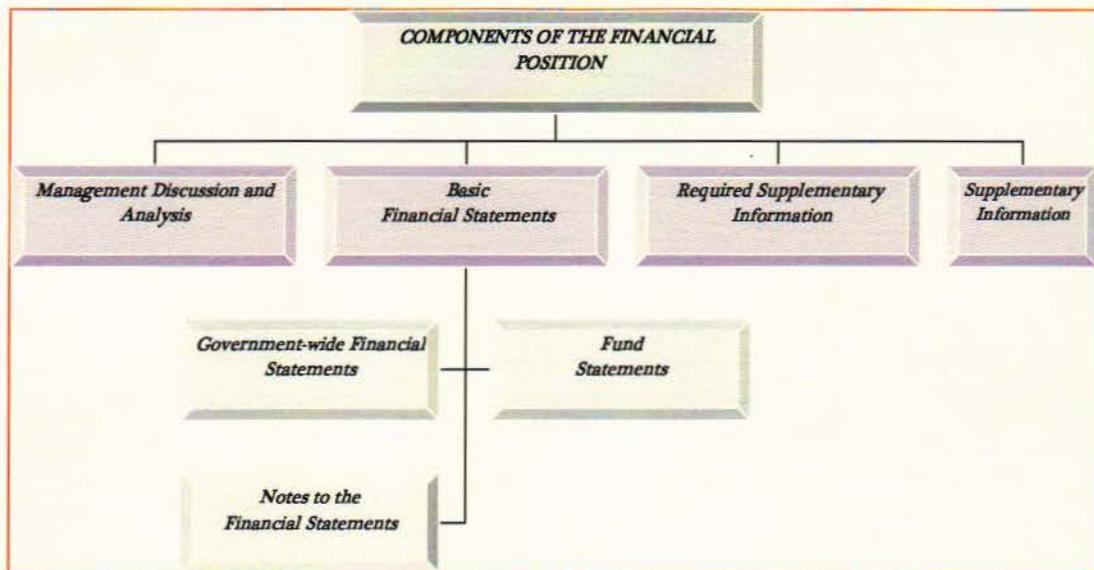
COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2009

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 and (4) other 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, 2009**

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, 2009**

**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, 2009 and 2008:

**TABLE 1**

<i>Summary Statement of Net Assets As of June 30,</i>		
	<b>Governmental Activities</b>	
	<b>2009</b>	<b>2008 (as restated)</b>
<b>Assets</b>		
Current and other assets	\$ 14,419,167	\$ 14,554,304
Capital assets	44,929,298	38,590,275
<b>Total assets</b>	<b>\$ 59,348,465</b>	<b>\$ 53,144,579</b>
<b>Liabilities</b>		
Current and other liabilities	\$ 4,943,653	\$ 4,515,472
Long term liabilities	15,585,154	13,756,669
<b>Total liabilities</b>	<b>20,528,807</b>	<b>18,272,141</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	35,741,919	29,578,870
Restricted	6,062,794	6,808,757
Unrestricted (deficit)	(2,985,055)	(1,515,189)
<b>Total net assets</b>	<b>\$ 38,819,658</b>	<b>\$ 34,872,438</b>

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 11% with respect to prior year.

The largest portion of the Municipality's net assets reflects its investment in capital assets (e.g. land, construction in progress, 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, 2009**

As of June 30 2009, 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**

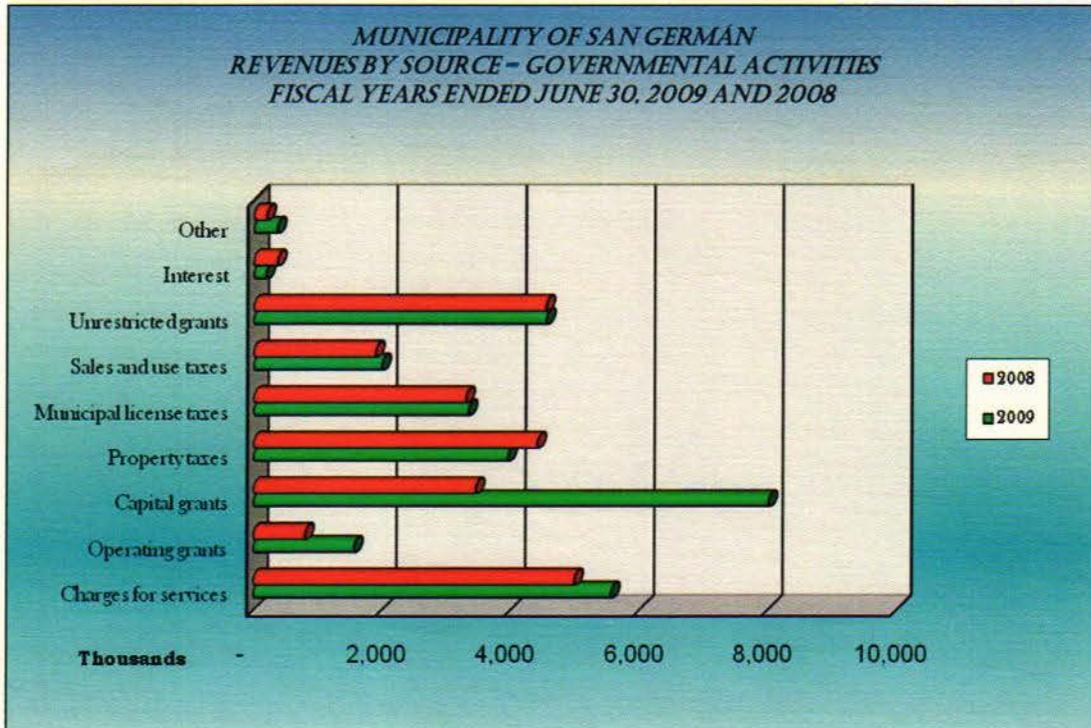
The following table summarizes the changes in net assets for the years ended June 30, 2009 and 2008:

**TABLE 2**

<i>Summary of Changes in Net Assets As of June 30,</i>			
	<b>Governmental Activities</b>		
	<b>2009</b>	<b>2008 (as restated)</b>	
<b>Program revenues:</b>			
Fees, fines and charges for services	\$ 5,560,246	\$ 4,987,064	
Operating grants and contributions	1,570,527	804,776	
Capital grants and contributions	8,008,875	3,456,070	
<b>General revenues:</b>			
Property taxes	3,957,513	4,408,873	
Municipal license taxes	3,340,440	3,300,674	
Sales and use taxes	1,997,928	1,896,619	
Grants and contributions not restricted to specific programs	4,547,463	4,541,339	
Interest	193,869	368,457	
Other	306,265	200,869	
Net gain on sale and disposition of capital assets	58,111	-	
<b>Total revenues</b>	<b>29,541,237</b>	<b>23,964,741</b>	
<b>Expenses:</b>			
General government	7,195,489	5,744,099	
Public safety	1,720,820	1,510,096	
Public works	10,513,370	10,547,530	
Sanitation	1,368,000	1,409,702	
Health	786,763	786,763	
Welfare	2,641,776	1,900,118	
Culture and recreation	565,656	480,139	
Education	292,772	295,646	
Interest on long term debt	509,371	512,871	
<b>Total expenses</b>	<b>25,594,017</b>	<b>23,186,964</b>	
<b>Change in net assets</b>	<b>3,947,220</b>	<b>777,777</b>	
<b>Net assets-beginning of year, as restated</b>	<b>34,872,438</b>	<b>34,094,661</b>	
<b>Net assets-end of year</b>	<b>\$ 38,819,658</b>	<b>\$ 34,872,438</b>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

**FIGURE 1**



Approximately 27% of the Municipality's revenues came from capital grants, 19% from fees and charges for services, 15% unrestricted grants, 13% from property taxes, and 11% from municipal license tax. The Municipality's expenses cover a range of services. The largest expenses are public works and sanitation representing approximately 46%, and general government with 28%.

With respect to prior year, revenues reported a net increase of approximately 23%. This net increase is primarily the result of: (1) a 132% increase in capital grants due to the recognition of \$4,204,463 in funds provided by the P.R. Infrastructure Financing Authority for improvements to the Arquelio Torres Coliseum; (2) 95% increase in operating grants mostly due to additional funds received from Homeland Security, FEMA, COPS, the P.R. Office of Elderly Affairs and from the P.R. Office for Public Schools Improvement; (3) a 11% increase in fees and charges for services that resulted from a 60% increase in construction permits, a 46% increase in rent charges and a the recognition of a full 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; (4) and finally, a 10% decrease in property taxes due to a 24% decrease in the property tax collected for the debt service fund (C.A.E.)

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

**MANAGEMENT DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2009**

**FIGURE 2**



Expenses increased 10% in comparison with the 2008 year. The most significant increases occurred in housing, welfare and community development, public safety and general government, with 39%, 14% and 25%, respectively. The significant increase in housing, welfare and community development is due to the recognition of a full year of operating costs of the two PRPHA's low-income housing projects administered by the Municipality. The 14% increase in public safety is the result of a 16% increase in the salaries and employee benefits paid to the municipal police force. Finally, the 25% increase in general government is mainly due to the recognition of the payment plans issued with the P.R. Aqueduct and Sewer Authority and the P.R. State Insurance Fund Corporation and of the increase in the P.R. Electric Power Authority (PREPA) debt. As noted previously, the significant net increase in revenues and the reasonable net increase in expenses caused an increase of 408% 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, 2009**

**TABLE 3**

<i>Net Cost of Municipality's Governmental Activities Fiscal years ended June 30,</i>				
<b>Functions/Programs</b>	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2009</b>	<b>2008 (as restated)</b>	<b>2009</b>	<b>2008 (as restated)</b>
General government	\$ 7,195,489	\$ 5,744,099	\$ (4,835,544)	\$ (3,884,096)
Public safety	1,720,820	1,510,096	(1,539,920)	(1,454,349)
Public works	10,513,370	10,547,530	312,732	(4,190,513)
Sanitation	1,368,000	1,409,702	(1,368,000)	(1,409,702)
Health	786,763	786,763	(786,763)	(786,763)
Housing, welfare and community development	2,641,776	1,900,118	(892,108)	(975,720)
Culture and Recreation	565,656	480,139	(550,622)	(437,778)
Education	292,772	295,646	(284,773)	(287,262)
Other	509,371	512,871	(509,371)	(512,871)
	<u>\$ 25,594,017</u>	<u>\$ 23,186,964</u>	<u>\$ (10,454,369)</u>	<u>\$ (13,939,054)</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, 2009, the governmental funds reported combined ending fund balances of \$6,978,324, a net decrease of \$1,134,570 in comparison with the prior year. This decrease was caused primarily by a net change in the general fund of (\$806,143); \$200,698 in the debt service fund; (\$125,043) in the Commonwealth Legislative Resolutions; and (\$413,853) in the Permanent Capital Improvements fund. Of the total combined fund balances, \$167,583 (2%) 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, 2009, the fund balance of the general fund decreased by \$806,143 when compared with the prior year. There was a net increase in revenues of \$394,391 due to: (1) an increase of \$397,327 in property taxes due to the inclusion of \$262,165 in property taxes from prior years; (2) a \$44,040 increase in fines and forfeitures (mainly traffic violations); (3) and finally, a decrease of \$76,294 in interest revenue due to a decrease in the interest rates earned on the certificates of deposits owned by the Municipality. The net increase in expenditures of \$1,213,529 is the result of an increase of \$840,553 in general government (mainly due to an increase in state insurance premiums, donations, legal claims paid during the year, payroll and fringe benefits, and contributions for postretirement benefits paid to retired employees); a \$73,196 increase in culture and recreation (salaries and fringe benefits); and finally, an increase of \$172,945 in public safety due to a 16% increase in the salaries and employee benefits paid to the municipal police force.

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

**MANAGEMENT DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2009**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund original budget for the fiscal period 2008-2009 presented an increase of 6% with respect to prior year budget. Amendments to the original budget are approved by the Municipal Legislature. During the fiscal year, budget revenues were increased by \$122,173 due to an increase in estimate adjustment made by the P.R. Electric Power Authority (PREPA) of the contribution in lieu of taxes ("CELI") for the fiscal year 2008-2009. Budget expenditures were increased by \$705,329. Actual revenues were more than the revised budgeted revenues by \$347,037 (net). The most significant positive variances were in property taxes (\$301,472), municipal license taxes (\$183,193), and other revenues (\$130,830), which were offset by a negative variance of \$141,888 in interest revenue and \$106,328 in sales and use taxes. The positive variance in property taxes was the result of the inclusion of property taxes from prior years in the amount of \$262,165. The \$130,830 positive variance in other revenues is mainly due to the recognition of a remaining balance in the amount of \$115,570 of the 2007-2008 governmental subsidies provided by CRIM that was collected in 2008-2009. The negative variance in the interest revenue is the result of a significant decrease in the interest rates earned on the certificates of deposits owned by the Municipality.

A positive variance of \$142,828 between revised budget and actual expenditures was due mainly to a net decrease of \$14,173 in general government, and a \$127,782 decrease in public works expenditures due mainly to utility charges that were less than the budget estimate. Actual expenditures exceeded actual revenues by \$132,559.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets**

At the end of the fiscal year, the Municipality has invested \$44,929,298 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of approximately 16% over the prior year.

**TABLE 4**

<i>Capital Assets, net As of June 30,</i>			
	<b>Governmental Activities</b>		
	<b>2009</b>	<b>2008 (as restated)</b>	
<b>Non-depreciable assets:</b>			
Land	\$ 5,961,346	\$ 5,958,106	
Construction in progress	8,447,258	2,174,022	
<b>Depreciable assets:</b>			
Buildings and Buildings Improvements	17,001,434	16,751,196	
Equipment	3,608,290	3,703,694	
Roads	4,676,742	4,639,401	
Bridges	5,234,228	5,363,857	
<b>Total</b>	<b>\$ 44,929,298</b>	<b>\$ 38,590,276</b>	

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

**MANAGEMENT DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2009**

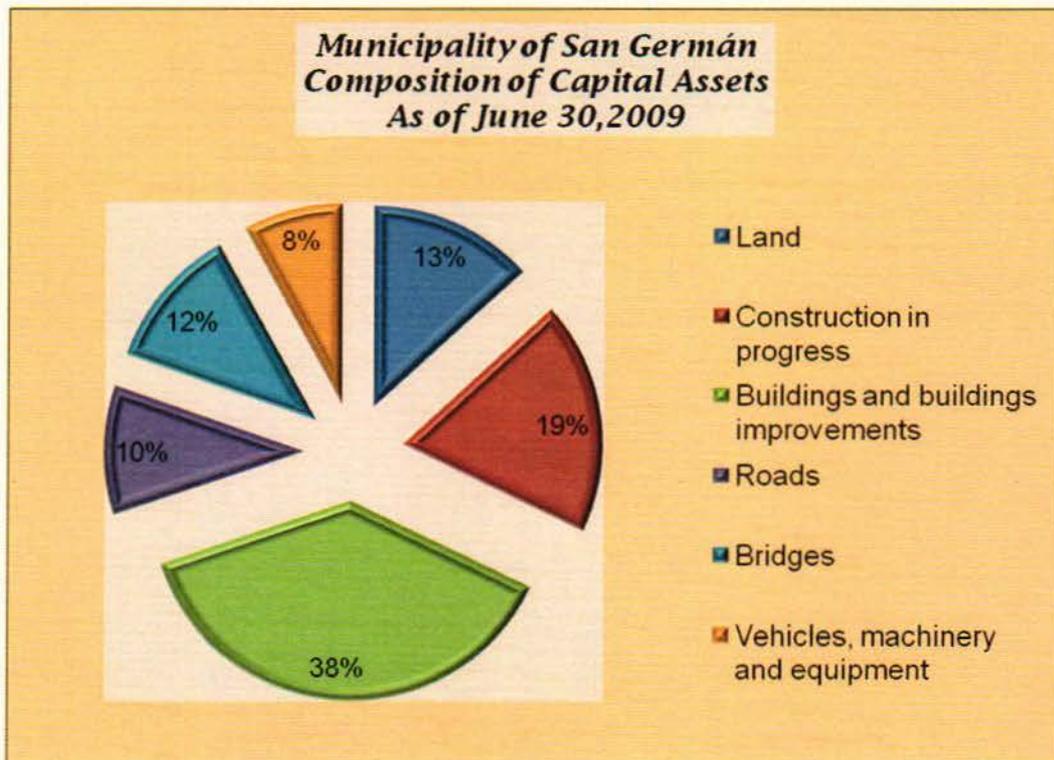
The Municipality's major capital projects that were still in construction as of June 30, 2009 are as follows:

- Improvements Arquelio Torres Coliseum - \$4,704,463
- Construction of Youth and Sport Center - \$972,643
- Construction "Paseo del Estudiante" - \$740,341
- Construction of a sanitary sewer system Guamá Community - \$390,004
- Construction of recreational area Cotto Community - \$262,300

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 \$457,194, mainly vehicles, heavy machinery and communications and security equipment.

Capital assets composition as of June 30, 2009 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, 2009**

**Long term debt**

At year-end, the Municipality maintains an outstanding balance of \$10,516,568 in general and special bonds and notes, an increase of 9% with respect to prior year. The following is a summary of the Municipality's outstanding debt as of June 30, 2009 and 2008:

**TABLE 5**

<i>Outstanding Long-term Debt As of June 30,</i>			
	<b>Governmental Activities</b>		
	<b>2009</b>	<b>2008 (as restated)</b>	
General and special obligation bonds and notes	\$ 10,516,568	\$ 9,622,568	
Note payable to CRIM – LIMS	165,852	225,679	
Note payable to CRIM – prior years delinquent accounts	110,921	115,744	
Compensated absences	3,692,679	3,014,469	
Christmas Bonus	402,681	305,410	
Claims and judgments	14,000	40,604	
Payable to CRIM – property tax advances	84,788	-	
Note Payable to SIFC	57,295	-	
Note payable to PRASA	92,028	-	
Note payable to ERS	62,105	120,440	
Payable to PREPA	386,237	311,755	
<b>Total</b>	<b>\$ 15,585,154</b>	<b>\$ 13,756,669</b>	

The general and special obligation bonds and notes increased by \$894,000 due to the issuance of a special obligation bond in the amount of \$996,000 for the financing of various construction projects and of a \$780,000 general obligation bond for the purchase of land. During the year, two new payment plans were issued with the P.R. Aqueduct and Sewer Authority (PRASA) and the State Insurance Fund Corporation in the amounts of \$117,803 and \$129,589, respectively. In addition, the increase in the notes payable with Puerto Rico Electric Power Authority (PREPA) 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 2007-2008, which was recorded both a long term debt and an account receivable from the agency. Finally, the significant increase in compensated absences is the result of a 14% increase in the total number employees working for the municipality as of June 30, 2009. 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 2009-2010 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 16.9%, which compares with the Commonwealth rate of 15.2%.

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

**MANAGEMENT DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2009**

The Municipality applied a conservative approach in development budget estimates. Amounts available for appropriations in the General Fund for the fiscal year 2009-2010 are \$15,955,496, a decrease of approximately 6% with respect to prior year estimates. Budgeted expenditures are expected to be reduced accordingly to the decrease 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 Germán, Puerto Rico 00683.

**BASIC FINANCIAL STATEMENTS**

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

**STATEMENT OF NET ASSETS  
JUNE 30, 2009**

---

<b>Assets</b>		<b>Governmental Activities</b>
Cash and cash equivalents		\$ 1,524,059
Receivables (net of allowance for uncollectibles) (Note C)		
Municipal license taxes		118,930
Sales and use taxes		122,664
Rents and construction permits		556,170
Due from: (Note D)		
Commonwealth Government		1,249,681
Federal Government		430,618
Restricted Assets:		
Cash and cash equivalents		5,379,609
Cash with fiscal agents		4,993,056
Deferred charges		44,380
Capital assets: (Note F)		
Land and construction in progress		14,408,604
Other capital assets, net		<u>30,520,694</u>
	Total capital assets, net	<u>44,929,298</u>
	<b>Total assets</b>	<b><u>\$59,348,465</u></b>

Continue

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

**STATEMENT OF NET ASSETS, Continued  
JUNE 30, 2009**

---

**Liabilities**

Accounts payable and accrued liabilities	\$ 1,561,062
Interest payable	240,608
Due to:	
Commonwealth Government (Note D)	293,460
Federal Government	420,586
Deferred revenues	2,427,937
Long term liabilities (Note H)	
Due within one year	2,096,716
Due in more than one year	<u>13,488,438</u>
<b>Total liabilities</b>	<b><u>\$20,528,807</u></b>

**Net assets**

Invested in capital assets, net of related debt	35,741,919
Restricted for:	
Capital projects	1,355,643
Debt service	2,918,871
Other specified purposes	1,788,280
Unrestricted (deficit)	<u>(2,985,055)</u>
<b>Total net assets</b>	<b><u>\$38,819,658</u></b>

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, 2009

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	
<b>Governmental activities:</b>					
General government	\$ 7,195,489	\$2,111,173	\$ 248,772	-	\$( 4,835,544)
Public safety	1,720,820	-	180,900	-	( 1,539,920)
Public works	10,513,370	2,654,072	163,155	8,008,875	312,732
Sanitation	1,368,000	-	-	-	( 1,368,000)
Health	786,763	-	-	-	( 786,763)
Welfare	2,641,776	795,001	954,667	-	( 892,108)
Culture and recreation	565,656	-	15,034	-	( 550,622)
Education	292,772	-	7,999	-	( 284,773)
Interest on long-term debt	509,371	-	-	-	( 509,371)
<b>Total government activities</b>	<b><u>\$25,594,017</u></b>	<b><u>\$5,560,246</u></b>	<b><u>\$1,570,527</u></b>	<b><u>\$8,008,875</u></b>	<b><u>\$(10,454,369)</u></b>
<b>General Revenues:</b>					
Taxes:					
Property taxes					
					\$ 3,957,513
Municipal license taxes					
					3,340,440
Sales and use taxes					
					1,997,928
Grants and contributions not restricted to specific programs					
					4,547,463
Interest					
					193,869
Other					
					306,265
Net gain on sale and disposition of capital assets					
					58,111
Total general revenues					
					<u>14,401,589</u>
<b>Change in net assets</b>					
					3,947,220
<b>Net assets, beginning of year, as restated</b>					
					<u>34,872,438</u>
<b>Net assets, end of year</b>					
					<u>\$38,819,658</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, 2009

	Major funds					
	General	Debt Service	Commonwealth Legislative Resolutions	Permanent Capital Improvements	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$1,524,059	\$ -	\$ -	\$ -	\$ -	\$1,524,059
Receivables (net of allowance for uncollectibles)						
Municipal license taxes	118,930	-	-	-	-	118,930
Sales and use taxes	122,664	-	-	-	-	122,664
Rents and construction permits	532,936	-	-	-	23,235	556,171
Due from:						
Commonwealth Government	810,044	258,273	-	-	181,364	1,249,681
Federal Government	-	-	-	-	430,618	430,618
Other funds (Note E)	1,918,720	-	-	-	26,419	1,945,139
Advances to other funds (Note E)	162,527	-	-	-	-	162,527
Restricted Assets:						
Cash and cash equivalents	-	-	1,135,940	1,382,381	2,861,288	5,379,609
Cash with fiscal agents	-	2,900,384	10,406	-	2,082,266	4,993,056
<b>Total assets</b>	<u>\$5,189,880</u>	<u>\$3,158,657</u>	<u>\$1,146,346</u>	<u>\$1,382,381</u>	<u>\$5,605,190</u>	<u>\$16,482,454</u>
<b>Liabilities and fund balances</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$379,708	-	\$ 761	\$ 236,148	\$944,446	\$ 1,561,063
Matured bonds and interest payable	-	956,123	-	-	-	956,123
Due to:						
Commonwealth Government	293,460	-	-	-	-	293,460
Federal Government	-	-	-	-	420,586	420,586
Other funds (Note E)	26,419	-	68,410	-	1,850,310	1,945,139
Advances from other funds (Note E)	-	-	16,090	-	146,437	162,527
Deferred revenues (Note G)	3,729,469	13,230	-	-	422,533	4,165,232
<b>Total liabilities</b>	<u>4,429,056</u>	<u>969,353</u>	<u>85,261</u>	<u>\$ 236,148</u>	<u>3,784,312</u>	<u>\$ 9,504,130</u>
<b>Fund balances:</b>						
Reserved for:						
Encumbrances	\$424,002	\$ -	\$ -	\$ -	-	\$ 424,002
Debt Service	-	2,189,304	-	-	-	2,189,304
Capital projects	-	-	119,756	1,146,233	1,223,633	2,489,622
Other specified purposes	-	-	941,329	-	597,245	1,538,574
Advances	169,239	-	-	-	-	169,239
Unreserved	167,583	-	-	-	-	167,583
<b>Total fund balances</b>	<u>760,824</u>	<u>2,189,304</u>	<u>1,061,085</u>	<u>1,146,233</u>	<u>1,820,878</u>	<u>6,978,324</u>
<b>Total liabilities and fund balances</b>	<u>\$5,189,880</u>	<u>\$3,158,657</u>	<u>\$1,146,346</u>	<u>\$1,382,381</u>	<u>\$5,605,190</u>	<u>\$16,482,454</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, 2009**

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<b>Total governmental fund balances:</b>		\$ 6,978,324
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:		44,929,298
Other assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Deferred charges-bond issue costs		44,380
Other assets are not available to pay for current period expenditures and therefore are deferred in the funds:		
Receivables:		
CRIM – Intergovernmental (General Fund)	60,440	
Municipal license taxes	118,930	
Rent - properties	137,139	
Rent – land lots	313,615	
P.R. Department of Family - Law No. 105	16,459	
P.R. Department of Treasury – Christmas bonus reimbursement	187,033	
P.R. Electric Power Authority (PREPA)	386,237	
Sales and use taxes (Debt Service Fund)	13,230	
OCAM – Public Order Code	149,030	
Federal Grants – CDBG	133,500	
Federal Grants – Public Housing Capital Fund	35,540	
Federal Grants – HOPWA	30,654	
Federal Grants – ESG	19,477	
P.R. Department of Labor – Law No. 52	92,689	
P.R. Department of Labor – Law No. 82 and “P.R. en Forma”	<u>43,322</u>	1,737,295
Interest liabilities are not due and payable in the current period and therefore, are not reported in the funds:		( 80,485)
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	9,720,568	
Compensated absences	3,692,679	
Claims and judgments	14,000	
Note payable to CRIM – delinquent accounts	110,921	
Note payable to CRIM – LIMS	165,852	
Payable to PREPA	386,237	
Christmas bonus	402,681	
Payable to CRIM – Property taxes advances	84,788	
Note payable to State Insurance Fund Corporation	57,295	
Note payable to P.R. Water and Sewer Authority	92,028	
Note payable to ERS	<u>62,105</u>	( 14,789,154)
<b>Net assets of governmental activities</b>		<b><u>\$ 38,819,658</u></b>

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, 2009**

	General	Debt Service	Major funds Commonwealth Legislative Resolutions	Permanent Capital Improvements	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes:						
Property taxes (Note I)	\$ 3,153,251	\$1,241,119	\$ -	\$ -	-	\$ 4,394,370
Municipal license taxes	3,314,231	-	-	-	-	3,314,231
Sales and use taxes	1,579,978	437,458	-	-	-	2,017,436
Intergovernmental:						
Commonwealth Government (Note J)	4,441,843	-	1,000	-	2,767,300	7,210,143
Federal Government	-	-	-	-	2,386,533	2,386,533
Rental income and changes for services	4,313,566	-	-	-	834,124	5,147,690
Fines and forfeitures	52,096	-	-	-	-	52,096
Interest	128,017	20,058	110	30,476	15,208	193,869
Other	45,260	-	-	-	125,174	170,434
<b>Total Revenues</b>	<u>17,028,242</u>	<u>1,698,635</u>	<u>1,110</u>	<u>30,476</u>	<u>6,128,339</u>	<u>24,886,802</u>
<b>Expenditures:</b>						
Current:						
General government	\$ 5,828,960	-	-	-	\$ 291,965	\$ 6,120,925
Public safety	1,549,965	-	-	-	85,183	1,635,148
Public works	6,765,222	-	35,307	439,654	1,641,933	8,882,116
Sanitation	1,268,193	-	-	-	15,145	1,283,338
Health	786,763	-	-	-	-	786,763
Welfare	574,072	-	300	-	2,040,319	2,614,691
Culture and recreation	460,336	-	-	-	87,779	548,115
Education	287,294	-	45	-	5,433	292,772
Capital outlays	246,592	-	90,501	4,675	3,755,742	4,097,510
Debt service:						
Principal	-	993,000	-	-	-	993,000
Interest	-	485,857	-	-	-	485,857
Bond issuance costs	-	-	-	-	10,341	10,341
<b>Total expenditures</b>	<u>17,767,397</u>	<u>1,478,857</u>	<u>126,153</u>	<u>444,329</u>	<u>7,933,840</u>	<u>\$27,750,576</u>
<b>Excess (deficiency) of revenues over expenditures</b>	(739,155)	219,778	(125,043)	(413,853)	(1,805,501)	(2,863,774)

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, 2009**

	Major funds					Total Governmental Funds
	General	Debt Service	Commonwealth Legislative Resolutions	Permanent Capital Improvements	Other Governmental Funds	
<b>Other financing sources (uses):</b>						
Proceeds from general obligation bonds	-	-	-	-	1,776,000	1,776,000
Proceeds from sale of capital assets	109,080	-	-	-	-	109,080
Payment of water and sewer utility charges	(117,803)	-	-	-	-	( 117,803)
Payment of workmen's compensation insurance premiums	(129,589)	-	-	-	-	( 129,589)
Proceeds-Note Payable PR Water and Sewer Authority	120,801	-	-	-	-	120,801
Proceeds-Note Payable State Insurance Fund Corporation	131,489	-	-	-	-	131,489
Discount-Note Payable PR Water and Sewer Authority	( 2,998)	-	-	-	-	( 2,998)
Discount-Note Payable State Insurance Fund Corporation	( 1,899)	-	-	-	-	( 1,899)
Payment of PREPA debt	(155,877)	-	-	-	-	( 155,877)
Transfers - in	23,782	-	-	-	43,974	67,756
Transfers - (out)	( 43,974)	(19,080)	-	-	( 4,702)	( 67,756)
<b>Total Other Financing sources (uses)</b>	<u>( 66,988)</u>	<u>(19,080)</u>	<u>-</u>	<u>-</u>	<u>1,815,272</u>	<u>1,729,204</u>
<b>Net change in fund balances</b>	(806,143)	200,698	(125,043)	(413,853)	9,771	(1,134,570)
<b>Fund balance at beginning of year</b>	<u>1,566,967</u>	<u>1,988,606</u>	<u>1,186,128</u>	<u>1,560,086</u>	<u>1,811,107</u>	<u>8,112,894</u>
<b>Fund balances at end of year</b>	<u>\$ 760,824</u>	<u>\$2,189,304</u>	<u>\$1,061,085</u>	<u>\$1,146,233</u>	<u>\$1,820,878</u>	<u>\$6,978,324</u>

*J. H. Toro*  
06/30/2009

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, 2009**

<b>Net change in fund balances – total governmental funds</b>		<b>\$(1,134,570)</b>
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for capital assets:	\$ 4,097,510	
Less: current year depreciation	<u>(1,937,661)</u>	2,159,849
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:		
		(50,970)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:		
CRIM – Intergovernmental	60,440	
Municipal license tax	26,209	
Rent	137,139	
Others	391,955	
P.R. Department of Treasury – Law No. 52	92,689	
P.R. Department of Treasury – Christmas bonus reimbursement	187,033	
P.R. Electric Authority (PREPA)	230,359	
Sales and use taxes (Debt Service Fund) (current year)	13,230	
OCAM – Public Order Code (current year)	122,397	
Federal Grants – Public Housing Capital Fund	35,540	
Federal Grants – CDBG	131,924	
Donated capital assets	<u>4,230,144</u>	5,659,059
Revenues reported in funds which are not reported as revenues in the Statement of Activities:		
CRIM – Property taxes (General Fund) (current year)	( 84,788)	
CRIM – Property taxes (General Fund) (prior year)	( 288,064)	
Construction permits	( 15,668)	
Rent	( 69,037)	
CRIM – Property taxes (Debt Service Fund) (prior year)	( 64,005)	
Sales and use taxes (Debt Service Fund) (prior year)	( 16,369)	
Sales and use taxes (General Fund) (prior year)	( 16,369)	
P.R. Electric Power Authority (PREPA) (prior year)	( 155,877)	
Other	( 190,216)	
P.R. Department of Treasury – Law No. 52	( 10,177)	
Federal Grants – CDBG	( 10,312)	
P.R. Department of Treasury – Christmas bonus reimbursement (prior year)	<u>( 141,853)</u>	(1,062,735)
Expenditures reported in funds which are not reported as expenses in the Statement of Activities:		
Matured bonds principal payments (net change)		111,000
Proceeds from general obligation bonds is another financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets:		
		(1,776,000)
Proceeds from long term debt is another financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets:		
		( 247,392)

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, 2009**

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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	882,000	
Other long term liabilities	<u>1,030,179</u>	1,912,179

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:

Bond issuance costs	10,341	
Amortization of bond issuance costs	<u>( 5,733)</u>	4,608

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	( 14,000)	
Accrued interest (net change)	4,676	
Compensated absences	(985,444)	
P.R. Electric Authority (PREPA)	(230,359)	
Christmas bonus	<u>(402,681)</u>	<u>(1,627,808)</u>

**Change in net assets of governmental activities** \$ 3,947,220

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, 2009**

**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, 2009

**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, 2009

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, 2009

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, 2009**

**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, 2009

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, 2009

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, 2009

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, 2009**

**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, 2009

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>
51	Accounting and Financial Reporting for Intangible Assets	June 30, 2010
53	Accounting and Financial Reporting for Derivative Instruments	June 30, 2010
54	Fund Balance Reporting and Governmental Fund Type Definition	June 30, 2011

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

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 \$7,255,969. 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 \$4,983,348.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**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, 2009 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, 2009 follows:

<u>Description</u>	<u>Amount</u>
Total municipal license tax receivable:	\$ 443,935
Less: allowance for uncollectibles	<u>(325,005)</u>
	<u><u>\$ 118,930</u></u>

As required by current standards, the \$118,930 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 \$2,405,942 is recorded as deferred revenue as of June 30.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE C – RECEIVABLES - Continued**

**3. Sales and use taxes**

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 a Municipal Ordinance to conform to dispositions of Act 80.

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 20<sup>th</sup> day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable of \$122,664 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; \$14,888 and \$64,800 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 \$13,230 (related to Municipal Redemption Fund) is recorded as deferred revenue since is not available as required by current standards.

**4. Rents and construction permits**

A detail of rents and construction permits' receivable as of June 30, 2009 follows:

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE C – RECEIVABLES - Continued**

Description	Amount
Rent-land lots	\$ 445,685
Rent-properties	293,217
Other	24,880
	763,782
Less: allowance for uncollectibles	(207,612)
	<b>\$ 556,170</b>

Of the total amount of \$556,170 the Municipality recorded \$450,752 as deferred revenue in the governmental funds statements since they are not available as required by current standards.

**NOTE D - DUE FROM (TO) GOVERNMENTAL ENTITIES**

1. *Amounts due from governmental entities as of June 30, 2009 follows:*

	Commonwealth Government	Federal Government
<b><u>Major fund - General fund:</u></b>		
P.R. Electric Power Authority (PREPA)	\$ 386,237	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	187,033	-
Office of Commissioner of Municipal Affairs – Public Order Code	120,135	-
Municipal Revenue Collection Center (CRIM) - intergovernmental subsidy (general fund)	60,440	-
P.R. Department of Treasury – sales and use taxes- Municipal Development fund	14,888	-
Solid Waste Authority	41,311	-
<b><u>Major fund – Debt service fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – property taxes	193,473	-
P.R. Department of Treasury – sales and use taxes- Municipal Redemption Fund	64,800	-
<b><u>Other governmental funds:</u></b>		
P.R. Department of Labor – Law No. 52 and 82	136,011	-
Office of Commissioner of Municipal Affairs - CDBG	-	34,091
U.S. Department of Housing and Urban Development - CDBG	-	256,213
P.R. Public Housing Administration (PRPHA) – Capital Fund Program	-	76,979
U.S. Department of Housing and Urban Development – Emergency Shelter Grant	-	20,691
P.R. Department of Health – HOPWA	-	42,270
Others	45,353	374
	<b>\$ 1,249,681</b>	<b>\$ 430,618</b>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE D - DUE FROM (TO) GOVERNMENTAL ENTITIES - Continued**

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, 2009 follows:**

<u>Description</u>	<u>Commonwealth Government</u>
Employees' Retirement System of the Government of P.R. (ERS)	\$ 253,246
P.R. Department of Labor – unemployment	20,860
P.R. Aqueduct and Sewer Authority (PRASA)	12,137
P.R. Industrial Development Company (PRIDCO)	6,208
Others	1,009
	<u>\$ 293,460</u>

**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>
<b>General Fund</b>	<b><u>Major fund:</u></b>	
	Commonwealth Legislature Resolutions	\$ 68,410
	<b><u>Other governmental funds:</u></b>	
	DTOP	362,481
	Rural Development Corporation	209,255
	CDBG	185,249
	Law No. 52 and 82	174,426
	OMEF	168,715
	Public and Indian Housing	115,231
	ESG	206,643
	DTOP	86,181
	Others	342,129
		<u>\$ 1,918,720</u>
<b>Other governmental funds:</b>	<b><u>Major fund:</u></b>	
\$1,695,000 Bond issuance	General Fund	\$ 20,873
\$2,100,000 Bond issuance	General Fund	5,546
		<u>\$ 26,419</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE E - INTERFUND TRANSACTIONS - Continued**

**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>
<b>General Fund</b>	<b><u>Major fund:</u></b> Commonwealth Legislature Resolutions	\$ 16,091
	<b><u>Other governmental funds:</u></b> OMEP FEMA Special Communities Others	45,411 32,250 25,061 43,714
		<b>\$ 162,527</b>

**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, 2009**

**NOTE F - CAPITAL ASSETS**

Capital assets and depreciation activity as of and for the year ended June 30, 2009 is as follows:

	Beginning balance July 1, 2008 as restated	Increases	Decreases	Ending balance June 30, 2009
<b><u>Governmental activities:</u></b>				
Capital assets, not being depreciated:				
Land	\$ 5,958,106	\$ 10,173	\$ 6,933	\$ 5,961,346
Construction in progress	2,174,022	7,234,724	961,488	8,447,258
Total capital assets not being depreciated:	8,132,128	7,244,897	968,421	14,408,604
Capital assets, being depreciated:				
Buildings and improvements	23,523,408	854,245	-	24,377,653
Equipment	9,153,571	457,194	5,159	9,605,606
Roads	12,188,625	685,231	157,828	12,716,028
Bridges	7,103,472	47,576	-	7,151,048
Total capital assets being depreciated	51,969,076	2,044,246	162,987	53,850,335
Less accumulated depreciation for:				
Buildings and improvements	6,772,212	604,007	-	7,376,219
Equipment	5,449,877	550,654	3,215	5,997,316
Roads	7,549,224	605,795	115,733	8,039,286
Bridges	1,739,615	177,205	-	1,916,820
Total accumulated depreciation	21,510,928	1,937,661	118,948	23,329,641
Total capital assets being depreciated, net	30,458,148	106,585	44,039	30,520,694
Governmental activities capital assets, net	<u>\$ 38,590,276</u>	<u>\$ 7,351,482</u>	<u>\$ 1,012,460</u>	<u>\$ 44,929,298</u>

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

**Governmental activities:**

General government	\$ 91,447
Public safety	85,672
Public works	1,631,256
Sanitation	84,661
Culture and recreation	17,541
Welfare	27,084
Total depreciation expense, governmental activities	<u>\$ 1,937,661</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**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:

	<b>Commonwealth Government</b>	<b>Federal Government</b>
<b><u>Major fund - General fund:</u></b>		
Municipal license taxes	\$ 2,524,872	\$ -
P.R. Electric Power Authority (PREPA)	386,237	-
P.R. Department of Treasury – Christmas bonus reimbursement	187,033	-
Office of Commissioner of Municipal Affairs – Public Order Code	120,135	-
Municipal Revenue Collection Center (CRIM) - intergovernmental subsidy (general fund)	60,440	-
Rent and construction permits	450,752	-
<b><u>Major fund – Debt service fund:</u></b>		
P.R. Department of Treasury – sales and use taxes- Municipal Redemption Fund	13,230	-
<b><u>Other governmental funds:</u></b>		
P.R. Department of Labor – Law No. 52 and 82	136,011	-
Others	45,354	-
Office of Commissioner of Municipal Affairs - CDBG	-	16,667
U.S. Department of Housing and Urban Development - CDBG	-	124,140
P.R. Public Housing Administration (PRPHA) – Low Rent Program	-	50,229
U.S. Department of Housing and Urban Development – Emergency Shelter Grant	-	19,477
P.R. Department of Health – HOPWA	-	30,655
	<b>\$ 3,924,064</b>	<b>\$ 241,168</b>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**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, 2009:

	<u>Balance at July 1, 2008 as restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2009</u>	<u>Due within one year</u>
General, Special					
Obligations Bonds and Notes	\$ 9,622,568	\$ 1,776,000	\$ 882,000	\$ 10,516,568	\$ 1,002,000
Note payable to CRIM- LIMS	225,679	-	59,827	165,852	63,439
Note payable to CRIM- financing of delinquent accounts	115,744	-	4,823	110,921	4,823
Note payable to ERS	120,440	-	58,335	62,105	62,105
Note payable to PRASA	-	117,803	25,775	92,028	60,734
Note payable to SIFC	-	129,589	72,294	57,295	57,295
Compensated absences	3,014,469	985,444	307,234	3,692,679	287,761
Christmas Bonus	305,410	402,681	305,410	402,681	402,681
Claims and judgments	40,604	14,000	40,604	14,000	-
Payable to PREPA	311,755	230,359	155,877	386,237	155,878
Payable to CRIM- property tax advances	-	84,788	-	84,788	-
	<u>\$ 13,756,669</u>	<u>\$ 3,740,664</u>	<u>\$ 1,912,179</u>	<u>\$ 15,585,154</u>	<u>\$ 2,096,716</u>

**2. General and special obligation bonds and notes payable**

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2009 amount to \$10,516,568. All these bonds 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 collect property taxes for payment of principal and interest on bonds and notes. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" to finance loans to Municipalities subject to restrictions imposed by law. Debt service funds has been established for the bonds and notes at GDB with the proceeds of those property and sales and use 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 special obligation notes of \$996,000 are made through the "Municipal Redemption Fund".

A detail of the general and special obligation bonds and notes as of June 30, 2009 follows:

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE H - LONG TERM DEBT - Continued**

	<b>Outstanding Amount</b>
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%	\$ 113,000
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%	115,341
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%	127,227
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% (6.20% at June 30, 2009)	1,860,000
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% (4.10% at June 30, 2009)	1,015,000
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% (4.10% at June 30, 2009)	95,000
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% (4.10% at June 30, 2009)	730,000
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%	311,000
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% (4.38% at June 30, 2009)	320,000

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE H - LONG TERM DEBT - Continued**

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% (4.38% at June 30, 2009)	215,000
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%	2,789,000
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% (4.38% at June 30, 2009)	1,050,000
2008 special obligation bond of \$780,000 due in annual installments ranging from \$50,000 to \$105,000 through July 1, 2018; bearing interest at rates ranging from 1.53% to 7.50% (2.43% at June 30, 2009)	780,000
2008 special obligation note of \$996,000 due in annual installments ranging from \$16,000 to \$86,000 through July 1, 2032; bearing interest at rates ranging from 1.53% to 7.50% (5.40% at June 30, 2009)	996,000
	<b>\$ 10,516,568</b>

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2009 follows:

June 30,	Principal	Interest
2010	\$ 1,002,000	\$ 477,085
2011	1,066,341	471,496
2012	1,081,227	363,569
2013	1,026,000	357,978
2014	759,000	313,875
2015-2019	2,066,000	1,140,165
2020-2024	1,280,000	762,250
2025-2029	1,524,000	383,573
2030-2032	712,000	54,700
<b>Totals</b>	<b>\$ 10,516,568</b>	<b>\$ 4,324,691</b>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**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:

\$ 165,852

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 63,439	\$ 8,624
2011	67,270	4,774
2012	35,143	872
<b>Totals</b>	<b>\$ 165,852</b>	<b>\$ 14,270</b>

**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:

\$ 110,921

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE H - LONG TERM DEBT - Continued**

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 4,823	\$ 11,722
2011	4,823	11,422
2012	4,823	11,122
2013	4,823	10,822
2014	4,823	10,522
2015-2019	24,113	48,111
2020-2024	24,113	40,612
2025-2029	24,113	33,113
2030-2032	14,467	16,268
<b>Totals</b>	<b>\$ 110,921</b>	<b>\$ 193,714</b>

**Note payable to Employee's Retirement System of the Government of Puerto Rico an its Instrumentalities (ERS).** – On June 29, 2007 the Board of Trustees of the Employee's Retirement System of the Government of Puerto Rico an 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:

**\$ 62,105**

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 62,105	\$ 4,014
<b>Totals</b>	<b>\$ 62,105</b>	<b>\$ 4,014</b>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE H - LONG TERM DEBT - Continued**

**Note payable to Puerto Rico Aqueduct and Sewer Authority (PRASA)** – On June 23, 2009 the Municipality entered into a financing agreement with PRASA to refinance through a long term (non-interest) obligation a \$120,801 debt for water and sewer services as of May 31, 2009. The Municipality paid a down payment of \$25,801 and issued a note for the remaining balance. The note has an imputed interest rate of 4.06% and was originally recorded at its present value of \$92,028, net of an unamortized discount of \$2,972 at inception. This note is payable in annual installments of \$5,278 (including interest), is due on December 24, 2010 and will be repaid 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).

\$ 92,028

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 60,734	\$ 2600
2011	31,294	372
<b>Totals</b>	<b>\$ 92,028</b>	<b>\$ 2,972</b>

**Note payable to State Insurance Fund Corporation (SIFC)** – On April 30, 2009 the Municipality entered into a financing agreement with SIFC to refinance through a long term (non-interest) obligation a \$131,489 debt for workmen compensation insurance applicable to fiscal year 2008-2009. The note has an imputed interest rate of 4.06% and was originally recorded at its present value of \$129,589, net of an unamortized discount of \$1,900 at inception. This note is payable in annual installments of \$4,880 (including interest) and is due on June 30, 2010. At June 30, 2009 the outstanding balance, net of the unamortized discount of \$1,268 amounted to \$57,295 and will be repaid 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).

\$ 57,295

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 57,295	\$ 1,268
<b>Totals</b>	<b>\$ 57,295</b>	<b>\$ 1,268</b>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE H - LONG TERM DEBT - Continued**

<p><b>Compensated absences</b> - 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.</p>	<p><b>\$ 3,692,679</b></p>
<p><b>Christmas Bonus</b> - represent the accrued portion corresponding to fiscal year 2008-2009 of the Christmas bonus to be paid in December 2009.</p>	<p><b>\$ 402,681</b></p>
<p><b>Claims and judgments</b> - represent the final costs of a legal case paid subsequent to June 30, 2009. The awarded amount will be paid with unrestricted funds.</p>	<p><b>\$ 14,000</b></p>
<p><b>Payable to PREPA</b> - 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, 2009 the outstanding amount of \$155,878 is recognized by the Municipality as a receivable and a liability to PREPA. For fiscal year 2007-2008 the Municipality's annual energy charges amounts to \$2,433,082 but the CELI obligation amounted to \$2,202,723. The excess amount of \$230,359 was also recorded as a payable and a receivable for the same amount. No amortization period was established by PREPA. Debt service requirements in future years are as follows:</p>	<p><b>\$ 386,237</b></p>

<b>June 30</b>	<b>Principal</b>
2009	\$ 155,878
2011-2015	230,359
Totals	<b>\$ 386,237</b>

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE H - LONG TERM DEBT - Continued**

**Payable to CRIM, property tax advances** – represent amount reported by CRIM on preliminary settlement of excess of advances over actual collections of property taxes applicable to fiscal 2008-2009. (See related note I) **\$ 84,788**

**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 1<sup>st</sup> and January 1<sup>st</sup>. Total tax rates in force as of June 30, 2009 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%	2.50%
Total tax rate:	<u>7.03%</u>	<u>9.53%</u>
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	<u>(.20%)</u>	<u>(.20%)</u>
<b>Total percent to be paid by taxpayers:</b>	<b><u>6.83%</u></b>	<b><u>9.33%</u></b>

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE I - PROPERTY TAXES - Continued**

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. The Municipality has a net payable of \$84,788 resulting from the preliminary settlement 2008-2009 which is recorded as long term debt.

**NOTE J - INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the General Fund are comprised of Christmas bonus reimbursement of \$280,793 and revenues for municipal equalization fund of \$4,161,050 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 and 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 non occupational disabilities. Benefits are considered vested 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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**NOTE K - RETIREMENT PLAN - Continued**

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.

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>
2009	\$ 241,234	\$ 298,133
2008	\$ 225,548	\$ 223,491
2007	\$ 233,799	\$ 217,278

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**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 \$149,962. These benefits are recorded as expenditures 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 \$158,071. Management believes that the summary of the future minimum rental commitments under noncancelable equipment leases with terms exceeding one year is not significant.

2. *Construction*

The Municipality has commitments at June 30, 2009 of approximately \$ 2,717,060 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. As a result of one settled case as of June 30, 2009 and not to be covered by insurance, the Municipality accrued \$14,000 in the government-wide statements. 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's financial position.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**NOTE O – NET ASSETS RESTATEMENT**

The following table disclosed the change of net assets balance at beginning of year as previously reported in the government wide statements. The change resulted from the correction of an overstatement of compensated absences liability and correction of an understatement of construction in progress and roads for projects not recorded in prior years. The beginning balances have been restated as follows:

	<b>Net assets</b>
Balance at beginning of year, as previously reported:	\$ 34,147,177
Correction of error, overstatement of compensated absences liability	591,009
Correction of error, understatement of capital assets – construction on progress and roads	134,252
Balance at beginning of year, as restated:	<u>\$ 34,872,438</u>

**NOTE P – FUND BALANCE DEFICITS**

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

	<b>Amount</b>
Capital Fund	\$ 35,540
Emergency Shelter Grant	\$ 20,278
Hazard Mitigation	\$ 8,063
CDBG	\$ 133,500
HOPWA	\$ 30,654
Office of Elderly Affairs	\$ 15,144
Traffic Safety Commission	\$ 25,758
Homeland Security	\$ 26,239
Law No. 52 and 82	\$ 136,011
Law No. 105	\$ 14,623

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.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

**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 (\$806,143), which is composed of the following:

	<u>Amount</u>
Net change in fund balance, 01 Fund	\$ (615,867)
Net change in fund balance, other special funds (sales tax funds) included as part of the general fund:	<u>(190,276)</u>
	<u>\$ (806,143)</u>

Negative net change in fund balance in 01 Fund resulted of the effect of a fund balance readjustment of \$627,000. 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.

END OF NOTES

**REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FISCAL YEAR ENDED JUNE 30, 2009**

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final	(Budgetary basis)	Positive (Negative)
<b>Revenues:</b>				
Taxes:				
Property taxes	\$ 4,056,940	\$ 4,056,940	\$ 4,358,412	\$ 301,472
Municipal license taxes	3,158,569	3,158,569	3,341,762	183,193
Sales and use taxes	1,661,689	1,661,689	1,555,361	(106,328)
Intergovernmental	3,248,390	3,248,390	3,236,682	( 11,708)
Rental income and charges for services	4,273,366	4,538,119	4,533,300	( 4,819)
Fines and forfeitures	40,000	40,000	36,285	( 3,715)
Interest	288,800	288,800	146,912	(141,888)
Other	172,580	30,000	160,830	130,830
<b>Total Revenues</b>	<u>16,900,334</u>	<u>17,022,507</u>	<u>17,369,544</u>	<u>347,037</u>
<b>Expenditures:</b>				
Current:				
General government	5,440,977	5,744,167	5,729,993	14,174
Public safety	1,657,903	1,550,111	1,549,965	146
Public works	6,147,309	6,890,419	6,762,637	127,782
Sanitation	1,426,349	1,292,336	1,292,078	258
Health	786,763	786,763	786,763	-
Welfare	596,879	586,778	586,656	122
Culture and recreation	522,572	461,220	460,962	258
Education	321,582	293,865	293,777	88
<b>Total expenditures</b>	<u>16,900,334</u>	<u>17,605,659</u>	<u>17,462,831</u>	<u>142,828</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>\$ -</u>	<u>(583,152)</u>	<u>(93,287)</u>	<u>489,865</u>
<b>Other financing sources (uses)</b>				
Transfers - in		-	4,702	4,702
Transfers - out		(43,848)	(43,974)	(126)
<b>Total other financing sources (uses)</b>		<u>(43,848)</u>	<u>(39,272)</u>	<u>4,576</u>
Readjustment from prior year fund balance (note B)		627,000	-	(627,000)
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>		<u>\$ -</u>	<u>\$ (132,559)</u>	<u>\$ (132,559)</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, 2009**

**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 \$627,000 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, 2009

NOTE C – BUDGET TO GAAP RECONCILIATION – Continued

<b>Excess of revenues and other financing sources over expenditures and other financing uses (budgetary basis):</b>	
Budget to GAAP differences:	\$(132,559)
<b>Entity differences:</b>	
Non budgeted funds recorded as revenues for financial reporting purposes:	16,567
Non budgeted funds recorded as expenditures for financial reporting:	(206,843)
<b>Basis of accounting differences:</b>	
Revenues recorded for financial reporting purposes but not in budgetary basis:	552,647
Revenues recorded in budgetary basis purposes but not in financial reporting	(782,356)
Expenditures recorded for financial reporting purposes but not in budgetary basis	(454,094)
<b>Timing differences:</b>	
Current year encumbrances recorded as expenditures for budgetary reporting purposes:	424,002
Prior year encumbrances recorded as expenditures for financial reporting purposes:	<u>(223,507)</u>
<b>Net change in fund balance (GAAP basis):</b>	<u>\$(806,143)</u>

**SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF SAN GERMAN**  
**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE**  
**BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION**  
**JUNE 30, 2009**

Line Item No.	Description	14.871 Housing Choice Vouchers
<b>Balance Sheet</b>		
111	Cash - unrestricted	\$ 26,243
113	Cash - other restricted	\$ 77,457
100	<b>Total cash</b>	<b>\$ 103,700</b>
121	Accounts receivable - PHA projects	\$ 366
122	Accounts receivable - HUD other projects	\$ 374
125	Accounts receivable - miscellaneous	\$ 2,458
128	Fraud recovery	\$ 12,339
120	<b>Total receivables, net of allowance for doubtful accounts</b>	<b>\$ 15,537</b>
144	Inter program - due from	\$ -
150	<b>Total Current Assets</b>	<b>\$ 119,237</b>
164	Furniture, equipment and machinery - administration	\$ 46,825
166	Accumulated depreciation	\$ (34,593)
160	<b>Total capital assets, net of accumulated depreciation</b>	<b>\$ 12,232</b>
180	<b>Total Non-current Assets</b>	<b>\$ 12,232</b>
190	<b>Total Assets</b>	<b>\$ 131,469</b>
312	Accounts payable <= 90 days	\$ -
322	Accrued compensated absences - current portion	\$ 5,888
345	Other current liabilities	\$ 6,647
347	Inter-program - due to	\$ 13,356
310	<b>Total Current Liabilities</b>	<b>\$ 25,891</b>
353	Non-current liabilities - other	\$ 11,128
354	Accrued compensated absences - non current	\$ 6,493
350	<b>Total Non-current Liabilities</b>	<b>\$ 17,621</b>
300	<b>Total Liabilities</b>	<b>\$ 43,512</b>
508.1	Invested in Capital Assets, Net of Related Debt	\$ 12,232
511.1	Restricted Net Assets	\$ 69,526
512.1	Unrestricted Net Assets	\$ 6,199
513	<b>Total Equity/Net Assets</b>	<b>\$ 87,957</b>
600	<b>Total Liabilities and Equity/Net Assets</b>	<b>\$ 131,469</b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF SAN GERMAN**  
**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE**  
**BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION**  
**(CONTINUED)**  
**JUNE 30, 2009**

Line Item No.	Description	14,871
Income Statement		Housing Choice Vouchers
70600-010	Housing assistance payments	\$ 318,573
70600-020	Ongoing administrative fees earned	\$ 57,055
70600-031	FSS Coordinator	\$ 8,708
70600-070	Admin fee calculation description	
70600	<b>HUD PHA operating grants</b>	<b>\$ 384,336</b>
71100-020	Administrative Fee	\$ -
71100	<b>Investment income - unrestricted</b>	<b>\$ -</b>
71400-010	Housing Assistance Payment	\$ 2,232
71400-020	Administrative Fee	\$ 2,231
71400	<b>Fraud recovery</b>	<b>\$ 4,463</b>
71500	Other revenue	\$ 38,584
700	<b>Total Revenue</b>	<b>\$ 427,383</b>
91100	Administrative salaries	\$ 38,421
91200	Auditing fees	\$ 1,500
91500	Employee benefit contributions- administrative	\$ 14,650
91600	Office expenses	\$ 1,781
91800	Travel	\$ 74
91000	<b>Total Operating - Administrative</b>	<b>\$ 56,426</b>
96200	Other general expenses	\$ 5,805
96210	Compensated absences	\$ 6,413
96600	Bad debt - other	\$ -
96000	<b>Total Other General Expenses</b>	<b>\$ 12,218</b>
96900	<b>Total Operating Expenses</b>	<b>\$ 68,644</b>
97000	<b>Excess Revenue Over Operating Expenses</b>	<b>\$ 358,739</b>
97300-050	All Other	\$ 333,608
97300	<b>Housing assistance payments</b>	<b>\$ 333,608</b>
97350	<b>HAP Portability-in</b>	<b>\$ 33,379</b>
97400	Depreciation expense	\$ 1,949
900	<b>Total Expenses</b>	<b>\$ 437,580</b>
10000	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	<b>\$ (10,197)</b>

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF SAN GERMAN**  
**SUPPLEMENTARY INFORMATION - FINANCIAL DATA SCHEDULE**  
**BALANCE SHEET AND STATEMENT OF REVENUES AND EXPENSES INFORMATION**  
**(CONTINUED)**  
**JUNE 30, 2009**

Line Item No.	Description	Income Statement	Housing Choice Vouchers
11030	Beginning equity	\$	98,154
11770-001	Administrative Fee Equity - Beginning Balance	\$	15,979
11170-010	Administrative Fee Revenue	\$	57,055
11170-020	Hard to House Fee Revenue	\$	-
11170-021	FSS Coordinator Grant	\$	8,708
11170-030	Audit Costs	\$	-
11170-040	Investment Income	\$	-
11170-045	Fraud Recovery Revenue	\$	2,231
11170-050	Other Revenue	\$	38,430
11170-051	Comment For Other Revenue		This amount corresponds to the administrative fees earned on the portability-in vouchers administered by the Municipality (\$5,051) plus the reimbursement received from the initial PHAs of the HAP rent payments made on behalf of the portability-in units during 08-09 (\$33,379)
11170-060	Total Admin Fee Revenues	\$	106,424
11170-080	Total Operating Expenses	\$	68,644
11170-090	Depreciation	\$	1,949
11170-095	Housing Assistance Portability In	\$	33,379
11170-110	Total Expenses	\$	103,972
11170-002	Net Administrative Fee	\$	2,452
11170-003	Administrative Fee Equity - Ending Balance	\$	18,431
11170	<b>Administrative Fee Equity</b>	<b>\$</b>	<b>18,431</b>
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$	82,175
11180-010	Housing Assistance Payments Revenues	\$	318,573
11180-015	Fraud Recovery Revenue	\$	2,232
11180-020	Other Revenue	\$	154
11180-021	Comment For Other Revenue		This amount corresponds to FFS forfeitures recognized during the period.
11180-030	Total HAP Revenues	\$	320,959
11180-080	Housing Assistance Payments	\$	333,608
11180-100	Total Housing Assistance Payments Expenses	\$	333,608
11180-002	Net Housing Assistance Payments	\$	(12,649)
11180-003	Housing Assistance Payments Equity - Ending Balance	\$	69,526
11180	<b>Housing Assistance Payments Equity</b>	<b>\$</b>	<b>69,526</b>
11190-210	Total ACC HCV Units		1,056
11190-220	Unfunded Units		-
11190	<b>Unit Months Available</b>		<b>1,056</b>
11210	<b>Unit Months Leased</b>		<b>1,029</b>

The accompanying note is an integral part of this schedule

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

**NOTE TO SUPPLEMENTARY INFORMATION  
FINANCIAL DATA SCHEDULE**

**June 30, 2009**

**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, 2009**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number (note B)</u>	<u>Pass-Through Entity Identifying Number (note C)</u>	<u>Federal Expenditures (note A)</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Community Development Block Grant-Entitlement Grant	14.218	N/A	\$ 1,333,022
Passed through the Office of Commissioner of Municipal Affairs: Community Development Block Grant - State's Program	14.228	AB - 57, FC-57 FD - 57	191,386
Passed through the P.R. Department of Family: Emergency Shelter Grants Program	14.231	S07DC720001	67,791
Shelter Plus Care	14.238	N/A	46,606
Passed through the P.R. Department of Health: Housing Opportunities for Persons with AIDS (HOPWA)	14.241	2008-DS 0618	31,849
Passed through the P.R. Department of Housing - (Puerto Rico Public Housing Agency "PRPHA"):			
Public and Indian Housing	14.850	RQ003091 RQ005145	687,625
Public Housing Capital Fund	14.872	RQ005008026	76,979
Section 8 Housing Choice Vouchers	14.871	N/A	<u>384,336</u>
Subtotal U.S. Department of Housing and Urban Development:			<u>2,819,594</u>
<b><u>U.S. Department of Transportation - National Highway Traffic Safety Administration</u></b>			
Passed through the P.R. Department of Transportation - (Traffic Safety Commission): State and Community Highway Safety	20.600	03-03-76	56,725
<b><u>Environmental Protection Agency</u></b>			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	N/A	7,016
<b><u>U.S. Department of Health and Human Services</u></b>			
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	182,012
<b><u>U.S. Department of Homeland Security</u></b>			
Passed through the Puerto Rico Governor's Office - (Governor's Authorized Representative-GAR): Disaster Grants - Public Assistance	97.036	125-99-125	850
Passed through the Puerto Rico Governor's Office - (Office of Public Safety Affairs): Citizen Corps	97.053	2004-GE-T4-0008	128,544
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	2007-GE-T7-0043	<u>18,055</u>
Subtotal U.S. Department of Homeland Security:			<u>147,449</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 3,212,796</u></b>

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, 2009**

**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
14.218	\$ 1,333,022
14.228	191,386
14.231	67,791
14.238	46,606
14.841	31,849
14.850	687,625
14.871	384,336
14.872	76,979
20.600	56,725
66.818	7,016
93.045	182,012
97.036	850
97.053	128,544
97.074	18,055
Total federal awards expenditures:	3,212,796
Total nonfederal awards expenditures:	4,721,044
<b>Total expenditures, fund statements:</b>	<b>\$ 7,933,840</b>

**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, 2009, which collectively comprise the Municipality of San Germán, Puerto Rico's basic financial statements and have issued our report thereon dated December 29, 2009. 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.

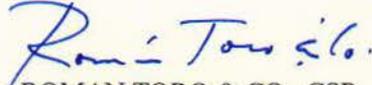
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality of San Germán, Puerto Rico's internal control.

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, 2009

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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, 2009. 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, 2009.

**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.

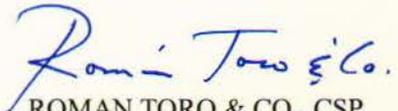
**Internal Control Over Compliance, continued**

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, 2009

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the original of this report

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF SAN GERMAN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009**

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**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, PUERTO RICO  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2009**

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<b>Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Cost(s)</b>	<b>Comments</b>
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**(1) Prior Audit Findings, fully corrected or not noted during our audit:**

None.

**(2) Prior Audit Findings, not corrected or partially corrected:**

None.

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

None.

**(4) Prior Audit Findings, are no longer valid:**

None.

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**END OF SCHEDULE**

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