

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SAN JUAN
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

COMPREHENSIVE
ANNUAL
FINANCIAL REPORT

MUNICIPALITY OF SAN JUAN
PUERTO RICO
YEAR ENDED JUNE 30, 2004

Prepared by: Finance Department



**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE MUNICIPALITY OF SAN JUAN
YEAR ENDED JUNE 30, 2004**

Table of Contents

	Page
I. INTRODUCTORY SECTION	
Letter of Transmittal	iii
List of Elected Officials	x
Municipality of San Juan Organizational Chart	xi
II. FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) to the Statement of Activities	16
Notes to Financial Statements	17
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	41
Notes to Budgetary Comparison Schedule – General Fund	42
Combining Financial Statements:	
Balance Sheet – Other Governmental Funds	43
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) – Other Governmental Funds	44
III. STATISTICAL SECTION	
General Governmental Expenditures	45
General Governmental Revenues	46
Property Tax Levies and Collections	47
Assessed Value of Taxable Property	48
Property Tax Rates	49
Computation of Legal Debt Margin	50
Data on Net Bonded Debt	51
Ratio of Debt Annual Service Expenditures for General Bonded Debt to Total General Governmental Expenditures	52
Demographic Statistics	53
Construction and Bank Deposits for the Last Ten Fiscal Years	54

INTRODUCTORY
SECTION



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Municipal Legislature
Municipality of San Juan
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Puerto Rico, as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of Comunidad del Retiro, which represents 7 percent and 1 percent, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Comunidad del Retiro, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Puerto Rico, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedule - General Fund on page 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Municipality's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.



*San Juan
Ciudad Capital*



"Hacia el San Juan Soñado"

December 17, 2004

To the Honorable Mayor,
Members of the Municipal Legislature
and Citizens of the Municipality of San Juan:

It is a pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the Municipality of San Juan (the "Municipality") for the fiscal year ended June 30, 2004. This report has been prepared by the Finance Department in conformance with accounting principles generally accepted in the United States of America as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB). The responsibility for the accuracy of data and the completeness and fairness of presentation including all disclosures rests with the Municipality. To the best of our knowledge and belief; the enclosed data, as presented, is accurate in all material respects, and is presented in a manner designed to set forth the financial position and results of operations of the various funds of the Municipality. We have included all the necessary disclosures to enable the reader to gain a thorough understanding of the Municipality's financial activities.

The CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory section includes this letter of transmittal; the Municipality's organizational chart and a list of the Municipality's elected officials. The Financial section includes the report of the independent auditors, management's discussion and analysis, government wide financial statements, fund financial statements for governmental funds as well as the notes to the financial statements, required supplementary information and combining financial statements. The Statistical section includes selected financial and demographic information.

GASB requires that management provide an introduction, overview and analysis of the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The Municipality's MD&A can be found immediately following the report of the independent auditors.

This report includes all funds of the Municipality, as well as those legally separated organizations for which the Municipality is financially accountable. The Municipality's determination of "financial accountability" is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*", as amended by the GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14*".

The Municipality provides a full range of municipal government services to over 434,000 residents and to an estimated 3 million visitors annually. Municipal services provided include police and security, emergency medical services, solid waste collection and disposal, sanitary code enforcement, health and human services, building and housing code enforcement, public housing, construction and maintenance of streets and certain bridges, parks and recreation, library, cultural and convention activities.

General Information - San Juan, Puerto Rico

The island of Puerto Rico is centrally located within the Caribbean Basin and serves as a regional gateway to the Caribbean. Bounded on the north by the Atlantic Ocean and by the Caribbean Sea in the south, Puerto Rico is approximately 1,000 miles southeast of Miami, FL and 1,500 miles from New York City.

Cont The Municipality of San Juan, capital of the Commonwealth of Puerto Rico, is the largest Municipality and principal seaport, as well as the main financial, cultural, and tourist center of Puerto Rico. According to the 2000 census there were 434,374 inhabitants with a population density of 9,087 residents per square mile, making it the most densely populated municipality in the island. The Municipality has an area over 47.8 square miles; it has 18 political subdivisions, or wards ("barrios"), and is divided into four major districts.

Old San Juan, "Viejo San Juan" is a compact historic district located on an islet at the entrance of the harbor, and is the cultural center and a major tourist attraction. Santurce, on another islet to the south, is a center for government and private offices. Hato Rey, is the main banking and financial services center for Puerto Rico. Rio Piedras, with the main campus of the University of Puerto Rico and several other smaller universities, is the island's principal educational center and transportation hub for connections with the rest of the island.

The Municipality's population grew rapidly until 1970 because of industrialization that drew families from the countryside to metropolitan San Juan in search of economic opportunity. During the 1970s the Municipality's population dropped by 6.5 percent for a

variety of social and economic reasons, including the rising price of housing and land. During the 1980's there was a slight increase of 0.7 percent in the Municipality's population. According to the 2000 Census, the Average Family Income (AFI) for the Municipality was \$20,640.

The municipal government is composed of a Mayor, and a Municipal Legislature of 17 members elected in general elections every four years. The Mayor is responsible for establishing and carrying out the policy making for overseeing the day-to-day operations of the municipal government and for appointing the senior municipal officials of the Municipality's departments. The Municipal Legislature is responsible, among other matters, for passing ordinances, resolutions, approving the budget and the appointment of senior municipal officials.

Economic Condition and Outlook

San Juan is the most important socioeconomic center in Puerto Rico. It has 11.4% of the island's population and generates 32% of its employment and total salaries. The economic base of the Municipality is diversified among banking, wholesale and retail trade as well as tourism.

Another sector that is showing signs of recovery is the tourism sector. San Juan has 32% of the total room inventory of the Island. In addition, San Juan's harbor is one of the largest cruise ship bases carrying more than 1.3 million passengers each year. Although tourism still represents a small segment of the Island economy, it represents an important segment of the Municipality's economy. The importance of tourism activity in the Municipality is much greater, in terms of employment and income multipliers, than the visitor expenditures. These expenditures provide links, directly and induced, to such economic activities as transportation, communications, trade, service, restaurants, entertainment, and many others.

The Luis Muñoz Marín International Airport, located adjacent to San Juan, ranks among the top thirty-four U.S. passenger airports with over 10 million passengers each year and services as a feeder of business not only for the tourism industry but for the general economy.

Major Initiatives / Programs

During fiscal year 2004, the Municipality continues to increase the level of services provided to its citizens through the new programs and the improvements of existing ones in the following areas: Family and Community Service, Public Safety, Health Services, Urban Development, Economic Development and Tourism, Public Works.

Family and Community Service

The Department of Family and Community Development was responsible for programs that promoted the economic and social well being of families, children, individuals, and communities in the Municipality of San Juan. The Department oversees and finances a broad range of activities that included direct services and assistance to children, youth, families, communities, persons with developmental disabilities, immigrants, residents of Public Housing and others.

The Municipality provided treatment and rehabilitation service to homeless people through an aggressive and constant insertion process in the community to identify and motivate them to receive these services. This program placed 2,700 in treatment programs, 40 homeless initiated their studies and other 542 returned with their family.

The Municipality serves special needs of senior citizens. The Municipality qualify them to exercise offices; carry services at home; encourage to participate in cultural, artistic, recreational, and sports activities and support six Centers of Service where they are attended. During 2004, the Municipality has given services of different kind to 1,620 residents.

Public Safety

The Police and Public Safety Department is committed to the enforcement of laws and preservation of order that protect the rights and property of every person within the Municipality of San Juan. The Department provides the highest quality of services to impact crime, and its associated elements, through the utilization of innovative and proven crime prevention strategies and problem-solving partnerships with the community.

Cont During 2004, the municipal police counts with 1,204 officers properly trained. That total represents an increase of 38% from previous years.

Health Services

The mission of the San Juan's Department of Health is to assure conditions in which Municipality residents can be physically and mentally healthy, with an emphasis on the promotion of health and prevention of illness through the provision of effective, accessible health services and efficient utilization of resources throughout the Municipality.

The Department provided free health care to hundreds of thousands of medically indigent people with a hospital base system.

During 2004, the Municipality re-shaped eight surgery's rooms of the San Juan Hospital and endows it with modern equipment. Inaugurated the room of childbearings at a cost of \$10 million and re-shaped the areas of intensive care for adults and children.

Among the services provided during program year 2004 are:

Cancer – The Municipality separated resources for programs of awareness, prevention, diagnose treatment and scientific investigation of the cancer. For this initiative, the United States Conference of Mayors awarded the “Best Practice Award” to the Municipality.

Mother and Child Program - This program provided education directed towards the prevention of teen pregnancy, and provided nutritional education and services to neighborhood youth and children. High risk factors include the lack of safe social spaces, unemployment, traumatic home situations, and a school system that fails to address the special needs of public housing residents.

Primary Health Service - The Municipality continued the administration of twelve health centers located Municipality wide (two center are located on public housing projects). The health centers operated by the Municipality provided Pharmacy, Emergency Room, Pediatric Ambulatory Clinics, Adult Ambulatory Clinics, Radiology, Laboratory and Oral Care Clinics to eligible medically indigent residents of San Juan.

“Alivio Dorado” - This initiative helps senior citizens to obtain their medicines with considerable discounts. There are approximately 19 municipalities and 23,168 persons subscribed to this program.

Urban Development

San The Capital Improvement Program includes the development of a Natatorium, the “Casa Cultural de Tras Talleres” which offers classes of drawing, dance, theater, guitar and flute, improvements to the Hiram Bithorn Stadium at the San Juan Sport Complex and improvements to various streets, avenues and sidewalks.

Economic Development and Tourism

The Municipality’s economy presented challenges due to the economic slowdown suffered in the U.S. after the terrorist attacks of September 11. The Economic Development and Tourism Department reaction was agile, providing assistance to the tourism sector. The economy of San Juan revolves, mainly, around the tourism, commerce, construction and financial services.

Public Works

Public Works is one of the largest departments within the Municipality’s government and offers a variety of services, including the maintenance of local streets, flood control facilities, common areas maintenance, solid waste collection, recycling, parks and recreational facilities maintenance and public lighting maintenance.

The Public Works Department attended over 200 cleaning initiatives during the year and cleaned 26 illegal landfills.

Debt Administration

At June 30, 2004, the Municipality had \$365,460,000 of general obligation bonds outstanding. The legal debt margin of the Municipality is equal to 10% of the total assessment of property located within the Municipality. Total property assessments at June 30, 2004, based on the information reported by the Municipal Revenue Collection Center amounted to approximately \$4.1 billion.

During fiscal year 2004, the Municipality issued bonds amounting to \$16,610,000 to provide for construction and equipment needs of the Municipality.

Risk Management

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

Cash Management

Substantially all cash balances are combined in a general checking account and several purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Investments earnings are all credited to the general funds.

The Municipality's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Puerto Rico law authorizes governmental entities to invest in direct obligations or obligations guaranteed by the United States Government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the United States and Commonwealth laws.

Independent Audit

Local statutes require an annual audit by independent certified public accountants. The independent auditors from Deloitte & Touche LLP were selected by the Municipality to perform the audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2004 in accordance with auditing standards generally accepted in the United States of America. The independent auditors' report on the financial statements is included in the financial section of this report.

Acknowledgments

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I would like to express our appreciation to the Mayor and the Municipal Assembly for their continuous support. Their vision and leadership allows us to accomplish our goals in a responsible and progressive manner. I would also like to recognize that the preparation of this report could not have been accomplished without the assistance of the entire staff of the Department of Finance. My appreciation to all members of the Finance Department who contributed to the preparation and completion of this report. Due credit also should be given to our independent auditors, Deloitte & Touche LLP, for their continuous advice and commitment.

Respectfully submitted,

Gerardo A. Rodriguez
Gerardo A. Rodriguez
Finance Director

**Municipality of San Juan
List of Elected Officials**

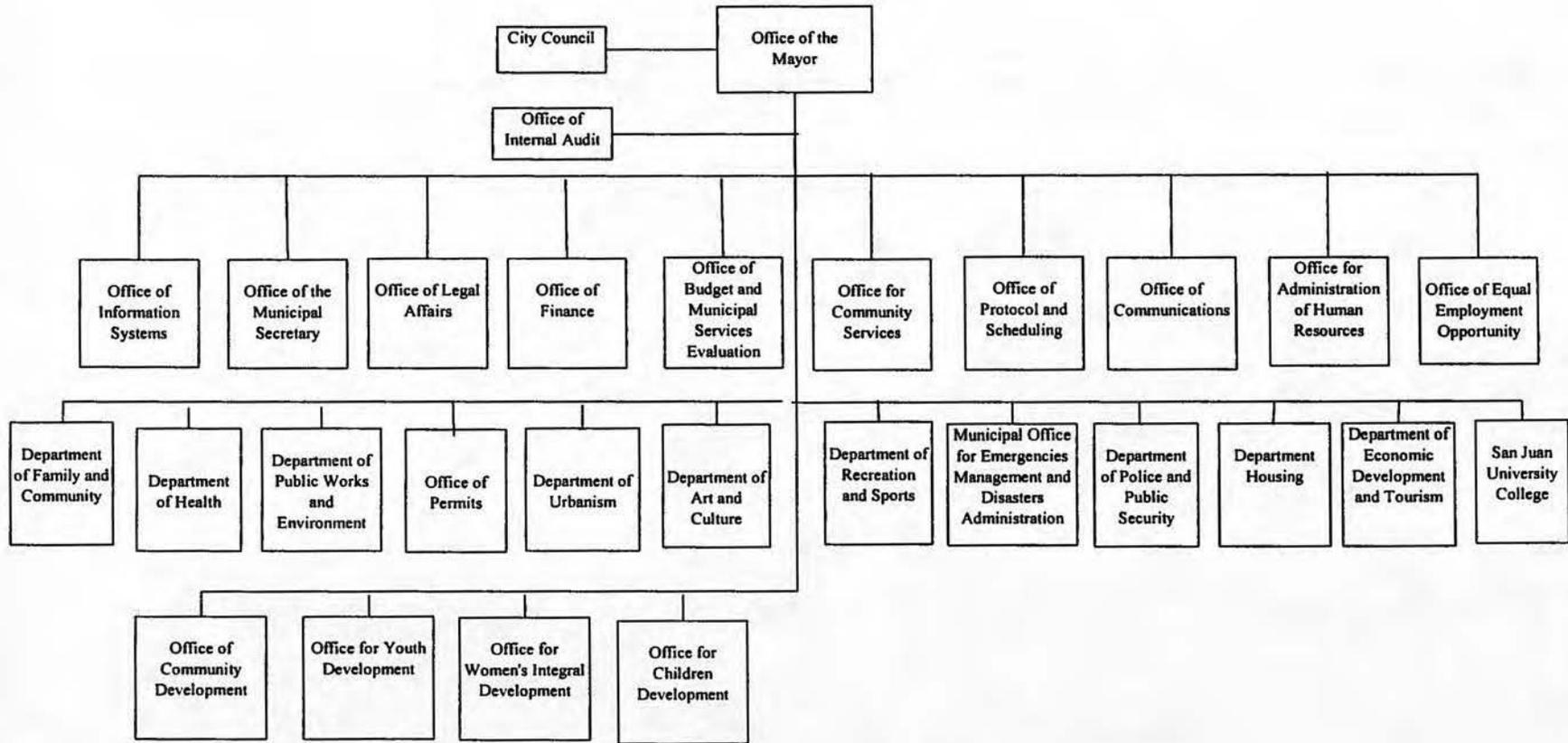
Mayor

Jorge A. Santini Padilla

Municipal Legislature

Elba A. Valles Pérez
Paulita Pagán Crespo
Ramón Miranda Marzán
Manuel E. Mena Berdecía
Roberto Acevedo Borrero
Dinary Camacho Sierra
José A. Dumas Febres
Linda A. Gregory Santiago
Rafael R. Luzardo Mejias
Migdalia Viera Torres
Sara de la Vega Ramos
Diego G. García Cruz
Angel L. González Esperón
Jose A. Berlinger Bonilla
Claribel Martínez Marmolejos
Luis Vega Ramos
Nilda Jiménez Colls

**Municipality of San Juan
Organizational Chart**



FINANCIAL
SECTION



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Municipal Legislature
Municipality of San Juan
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Puerto Rico, as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of Comunidad del Retiro, which represents 7 percent and 1 percent, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Comunidad del Retiro, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Puerto Rico, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedule - General Fund on page 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Municipality's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Municipality's respective financial statements that collectively comprise the Municipality's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Municipality's management. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

December 17, 2004

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MUNICIPALITY OF SAN JUAN, PUERTO RICO

Management Discussion and Analysis

The Management of the Municipality of San Juan (the "Municipality") provides the Municipality's comprehensive annual financial report and the discussion and analysis of the Municipality's financial performance during the fiscal year ended June 30, 2004.

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

FINANCIAL HIGHLIGHTS

- The Municipality net assets decreased by \$6.3 million.
- In the fund financial statements, revenue increased \$61.2 million (or 11.7%) while expenditures increased \$68.3 million (or 11.4%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of deficit of \$2.5 million.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$9.9 million.
- The Municipality issued bonds and notes amounting to \$76.3 million to finance capital improvements.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Municipality. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statements) in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, and their difference reported as net assets. Fluctuations in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

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

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Management Discussion and Analysis

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

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

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

Other Supplementary Information

The combining financial statements referred to earlier in connection with non-major component units are presented following the required supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statement.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes, etc.) have not been reported nor depreciated in government financial statements. Governmental Accounting Standard Board Statement No. 34 ("GASB 34") requires that these assets be valued and reported within the governmental column of the Government-Wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful lives or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Management Discussion and Analysis

periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2001, the Municipality commenced the prospective reporting of infrastructure assets. Also, the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

Condensed net asset information is presented below:

Condensed Statement of Net Assets June 30, 2004 and 2003

	June 30,		Change	Change Pctg.
	2004	2003		
Capital assets	\$ 529,336,672	\$ 497,132,213	\$ 32,204,459	6.5%
Other assets	345,257,505	338,061,873	7,195,632	2.1%
Total assets	874,594,177	835,194,086	39,400,091	4.7%
Current liabilities	272,499,512	263,104,556	9,394,956	3.6%
Noncurrent liabilities	567,853,294	531,500,382	36,352,912	6.8%
Total liabilities	840,352,806	794,604,938	45,747,868	5.8%
Net Assets:				
Invested in capital assets, net of related debt	215,923,978	206,413,330	9,510,648	4.6%
Restricted for:				
Debt service	8,906,766	21,022,820	(12,116,054)	-57.6%
Capital projects	62,622,368	117,650,079	(55,027,711)	-46.8%
Unrestricted	(253,211,741)	(304,497,081)	51,285,340	-16.8%
Total net assets	\$ 34,241,371	\$ 40,589,148	\$ (6,347,777)	-15.6%

Net assets of the Municipality decreased approximately by \$6.3 million. Such decrease is the effect of a \$39.4 million increase in total assets and an increase of \$45.7 million in liabilities. Total assets increased as the result of the net effect of: (i) an increase in capital assets of \$32.2 million mainly due to building and site improvements to the Municipality's facilities; (ii) an increase of \$7.1 million in other assets mainly due to an increase in the intergovernmental and other receivables.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Management Discussion and Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position. The Municipality's combined net assets totaled \$34.2 million at the end of fiscal 2004, compared to net assets of \$40.5 million at the end of the previous fiscal year.

The largest portion of the Municipality's net assets is the unrestricted deficit. This is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure care costs, claims and judgments and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

An additional portion of the Municipality's net assets represents the investment in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represent another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Management Discussion and Analysis

Changes in Net Assets

The condensed changes in net assets are presented below:

Condensed Statement of Activities

	Year ended June 30,			
	2004	2003	Change	Change Pctg.
Program revenues:				
Charges for services	\$ 78,828,465	\$ 68,158,063	\$ 10,670,402	16%
Operating grants and contributions	118,115,714	135,050,172	(16,934,458)	-13%
Capital grants and contributions	2,128,040	1,983,855	144,185	7%
General revenues:				
Property taxes	213,470,684	187,251,859	26,218,825	14%
Municipal license tax	119,463,489	97,531,113	21,932,376	22%
Grants and contributions not restricted to specific programs	32,736,870	20,866,090	11,870,780	57%
Interest and investment earnings	2,917,644	5,571,239	(2,653,595)	-48%
Other	12,872,843	2,876,638	9,996,205	347%
Total revenues	<u>580,533,749</u>	<u>519,289,029</u>	<u>61,244,720</u>	<u>12%</u>
Expenses:				
General government	93,237,721	68,904,032	24,333,689	35%
Public safety	44,531,567	41,238,979	3,292,588	8%
Public works	67,485,816	37,650,529	29,835,287	79%
Culture and recreation	16,412,330	16,568,749	(156,419)	-1%
Health and welfare	245,857,330	220,964,094	24,893,236	11%
Urban development	52,168,184	48,768,720	3,399,464	7%
Economic development	34,249,135	34,768,312	(519,177)	-1%
Education	10,197,688	9,351,904	845,784	9%
Interest on long-term debt	22,741,755	22,985,363	(243,608)	-1%
Total expenses	<u>586,881,526</u>	<u>501,200,682</u>	<u>85,680,844</u>	<u>17%</u>
Change in net assets	(6,347,777)	18,088,347	(24,436,124)	-135%
Net assets, beginning of year	<u>40,589,148</u>	<u>22,500,801</u>	<u>18,088,347</u>	<u>80%</u>
Net assets, end of year	<u>\$ 34,241,371</u>	<u>\$ 40,589,148</u>	<u>\$ (6,347,777)</u>	<u>-16%</u>

The Municipality's net assets decreased by \$6.3 million. Approximately 57.3 percent (54 percent in fiscal 2003) of the Municipality's total revenue came from taxes, while 26.3 percent (30 percent in fiscal 2003) resulted from grants and contributions, including federal aid. Charges for Services provided 13.6 percent (13 percent in fiscal 2003) of total revenues. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare services, general government, public works and urban development.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Management Discussion and Analysis

Revenue from property and municipal taxes increased by 16.9 percent. The increase in these items was due to an initiative in which the Municipality provided assistance to the Municipal Revenue Collection Center (CRIM) in the efforts of collection and imposition of the property tax. Charges for services increased by 15.6 percent when compared with the prior fiscal year mainly due an increase in construction permits revenues and the strong and aggressive collection efforts on the balances owed from previous years and due to revenues from the Healthcare Reform. The Health Department began to expand and to offer extended and higher quality services to the population. Said services in conjunction with the establishment of a sound and effective billing system for the health services caused an increase in the income by this concept.

The Municipal expenses amounted to \$586.8 million and \$501.2 million for the years ended June 30, 2004 and 2003, respectively. The increase in municipal expenses was mainly due to an increase in payroll expenses and an increase in health services.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$112.8 million, a decrease of \$3 million in comparison with the prior fiscal year. There are reservations of fund balance amounting to \$129 million. This is the fund balance that it is not available for new spending because it has already been committed: 1) to liquidate contracts and purchase orders of the prior fiscal year (\$23.5 million), 2) to pay debt service (\$8.9 million), 3) to pay for capital projects (\$62.6 million), 4) for inventories not yet consumed (\$9.1 million) or 5) advances to other funds (\$24.9 million). Accordingly, since there is an excess of reservations over the total fund balance there exists a deficit of \$16.3 million in the governmental funds.

Within the governmental funds, is included the general fund which is the main operating fund of the Municipality. As of June 30, 2004 and 2003, the general fund has a deficit of \$25.9 million and \$28.5 million, respectively. Key factors in the decrease of the deficit are as follows:

- Increase of \$64.4 million in total revenues. ✓
- Increase of \$52.8 million in expenditures. ✓
- Operating transfer of \$10.4 million from the debt service fund.
- Other financing sources amounting to \$17.2 million.

The increase of \$64.4 million in total revenues was mainly due to increases of \$22.2 million in property tax, \$21.9 million in municipal license tax, \$6.2 million in license, permits and other local taxes and \$4.5 million in charges for services. The Municipality moved aggressively toward an improvement in

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Management Discussion and Analysis

collection efforts for property and municipal license taxes due to a strategic plan to reduce tax evasion, better equipment and personnel training. This effort helped to increase our revenues. In addition, the financial sector had a better financial performance in comparison to previous years which resulted in additional municipal license taxes revenues to the Municipality.

Furthermore, the increase in charges for services is mainly related the increase in services provided and to the establishment of a sound and effective billing system to health services provided by the Municipality.

Notwithstanding tighter controls imposed by the Municipality's management, there was an increase of \$52.8 million in expenditures mainly due to increase in salaries and increase in health services.

The operating transfer of \$10.4 million from the debt service fund to the general fund is the result of Law 64 of July 3, 1996, as amended, which allows municipalities that have excess funds to repay general obligation bonds to transfer such excess to the general fund for operating purposes.

Other financing sources amounting to \$17.2 million are the result of long-term debt issued.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2004 and 2003 amounted to approximately \$529.3 million and \$497.1 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, improvements, infrastructure, equipment, and intangibles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Municipality's investment in capital assets was about 6.4 percent, over the last fiscal year. Actual expenditures to purchase or construct capital assets for the years ended June 30, 2004 and 2003 were \$54.6 and \$51.1 million, respectively. Depreciation charges amounted to \$22.3 million and \$27.6 million for the years ended June 30, 2004 and 2003, respectively.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in their entirety for such purposes and cannot be used for any other purposes. As of June 30, 2004 and 2003, the Municipality had approximately \$62.6 million and \$117.6 million, respectively, of unexpended proceeds from bond issuances that are committed for future construction activities.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Management Discussion and Analysis

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. See "Limitations on Ability of Municipalities to Issue General Obligation Debt - The Municipal Bonds" for a general description of such limitations.

Based on the current total net assessed valuation of real and personal property in San Juan provided by the Governmental Development Bank for Puerto Rico ("GDB") of approximately \$4.17 billion, the legal margin of the Municipality of San Juan as of June 30, 2004, was \$417 million. The Municipality of San Juan's available legal margin as of June 30, 2004, was calculated by GDB to equal \$62 million after subtracting from the legal margin the amount of \$390.1 million in outstanding general obligation debt as of June 30, 2004, and adding to the legal margin the amount in its Redemption Fund of \$34.7 million as of June 30, 2004.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient payment capacity. Act No. 64 of July 3, 1996, as amended, provides that a municipality has sufficient payment capacity to incur additional general obligation debt if the deposits in such municipality's Debt Service Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt (payment capacity). The ratings assigned are AAA by Standard & Poor's Investor Services.

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Debt Service Fund, are not sufficient to cover such debt service. It has never been necessary to apply basic taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available, but the revenue also is very predictable.

The factors mentioned above were considered when preparing the Municipality's budget for the 2004-2005 fiscal year.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Management Discussion and Analysis

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 5th floor of the Municipal Tower, 160 Chardon Avenue, San Juan, Puerto Rico 00919.

MUNICIPALITY OF SAN JUAN, PUERTO RICO
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 131,032,768
Cash with fiscal agent	128,441,977
Accounts receivable:	
Municipal license tax	3,500,000
Intergovernmental	55,509,573
Other	11,445,454
Inventories	9,144,009
Deferred charges	2,013,512
Restricted assets - Cash and cash equivalents	4,170,212
Capital assets, net	<u>529,336,672</u>
Total assets	<u>\$ 874,594,177</u>
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 80,661,723
Deferred revenues:	
Municipal license tax	102,106,161
Federal grant revenues	12,341,022
Matured bonds and interest payable	35,304,358
Noncurrent liabilities:	
Due within one year	42,086,248
Due in more than one year	<u>567,853,294</u>
Total liabilities	<u>840,352,806</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	215,923,978
Restricted for:	
Debt service	8,906,766
Capital projects	62,622,368
Unrestricted	<u>(253,211,741)</u>
Total net assets	<u>\$ 34,241,371</u>

See notes to financial statements.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

STATEMENT OF ACTIVITIES

Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 93,237,721	\$ 30,552,246	\$	\$ 1,559,903	\$ (61,125,572)
Public safety	44,531,567	313,014	2,412,101		(41,806,452)
Public works	67,485,816				(67,485,816)
Culture and recreation	16,412,330	389,465	815,500		(15,207,365)
Health and welfare	245,857,330	40,816,487	48,507,316	568,137	(155,965,390)
Urban development	52,168,184		37,896,561		(14,271,623)
Economic development	34,249,135	4,685,295	24,811,520		(4,752,320)
Education	10,197,688	2,071,958	3,672,716		(4,453,014)
Interest on long-term debt	22,741,755				(22,741,755)
Total governmental activities	\$ 586,881,526	\$ 78,828,465	\$ 118,115,714	\$ 2,128,040	\$ (387,809,307)

General revenues:

Property taxes	\$ 213,470,684
Municipal license tax	119,463,489
Grants and contributions not restricted to specific programs	32,736,870
Interest and investment earnings	2,917,644
Other	12,872,843

Total general revenues 381,461,530

Change in net assets (6,347,777)

Net assets at beginning of year 40,589,148

Net assets at end of year \$ 34,241,371

See notes to financial statements.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

ASSETS	General	Debt Service Fund	Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 42,391,273	\$	\$ 63,975,071	\$ 24,666,424	\$ 131,032,768
Cash with fiscal agent	2,637,721	45,232,549		80,571,707	128,441,977
Accounts receivable:					
Municipal license tax	3,500,000				3,500,000
Intergovernmental	37,213,229	7,139,807		11,156,537	55,509,573
Other	11,090,534			354,920	11,445,454
Advances to other funds	24,914,348				24,914,348
Inventories	5,486,721			3,657,288	9,144,009
Restricted assets - cash and cash equivalents	-			4,170,212	4,170,212
Total assets	\$ 127,233,826	\$ 52,372,356	\$ 63,975,071	\$ 124,577,088	\$ 368,158,341
LIABILITIES AND FUND BALANCES (DEFICIT)					
Liabilities:					
Accounts payable and accrued liabilities	\$ 51,000,312	\$ 62,969	\$ 3,379,634	\$ 26,218,808	\$ 80,661,723
Advances from other fund		8,098,263	406,480	16,409,605	24,914,348
Matured bonds and interest payable		35,304,358			35,304,358
Deferred revenues:					
Municipal license tax	102,106,161				102,106,161
Federal grant revenues	63,552			12,277,470	12,341,022
Total liabilities	153,170,025	43,465,590	3,786,114	54,905,883	255,327,612
Fund balances (deficit):					
Reserved for:					
Inventories	5,486,721			3,657,288	9,144,009
Advances to other funds	24,914,348				24,914,348
Debt service		8,906,766			8,906,766
Capital projects				62,622,368	62,622,368
Encumbrances	23,578,401				23,578,401
Unreserved:					
General fund	(79,915,669)				(79,915,669)
Special revenue funds			60,188,957	3,391,549	63,580,506
Total fund balances/(deficit)	(25,936,199)	8,906,766	60,188,957	69,671,205	112,830,729
Total liabilities and fund balances/(deficit)	\$ 127,233,826	\$ 52,372,356	\$ 63,975,071	\$ 124,577,088	

Amounts reported for 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		529,336,672
Other assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		2,013,512
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued compensated absences	\$ 36,184,184	
Liability for claims and judgments	3,000,000	
Landfill obligation	21,718,490	
Other liabilities	18,450,404	
Notes payable	114,725,000	
Bonds payable	365,460,000	
Mortgage payable	5,712,779	
Advances from CRIM	37,812,890	
Obligations under capital leases	6,875,795	
Total long-term liabilities		(609,939,542)
Total net assets of governmental activities		\$ 34,241,371

See notes to financial statements.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
 GOVERNMENTAL FUNDS
 Year ended June 30, 2004

	General	Debt Service Fund	Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 169,392,475	\$ 44,078,209	\$	\$	\$ 213,470,684
Municipal license tax	119,463,489				119,463,489
Licenses, permits and other local taxes	25,210,288				25,210,288
Charges for services	49,590,273			585	49,590,858
Fines and forfeitures	4,027,319				4,027,319
Interest	2,860,013		32,606	25,025	2,917,644
Intergovernmental:					
Federal	354,980			117,300,212	117,655,192
Local	32,381,890			2,943,542	35,325,432
Other	3,153,198			9,719,645	12,872,843
Total revenues	406,433,925	44,078,209	32,606	129,989,009	580,533,749
EXPENDITURES:					
Current:					
General government	90,463,950		643,873	8,224,286	99,332,109
Public safety	39,977,884			3,293,359	43,271,243
Public works	58,706,316			6,028,729	64,735,045
Culture and recreation	9,528,574			3,003,224	12,531,798
Health and welfare	186,436,489			53,850,401	240,286,890
Urban development	6,898,334			40,784,388	47,682,722
Economic development	13,469,993			16,007,420	29,477,413
Education	6,405,354			3,279,693	9,685,047
Capital outlays	2,732,755		11,210,745	40,661,789	54,605,289
Debt service:					
Principal	15,138,583	24,730,000			39,868,583
Interest and other charges	1,769,833	21,033,137	336,770	93,837	23,233,577
Total expenditures	431,528,065	45,763,137	12,191,388	175,227,126	664,709,716
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(25,094,140)	(1,684,928)	(12,158,782)	(45,238,117)	(84,175,967)
OTHER FINANCING SOURCES (USES):					
Transfer in	10,431,126				10,431,126
Bonds issued				16,610,000	16,610,000
Note payable issued	17,240,000		41,330,000	1,170,000	59,740,000
Lease agreements issued				4,815,463	4,815,463
Transfer out		(10,431,126)			(10,431,126)
Total other financing sources (uses)	27,671,126	(10,431,126)	41,330,000	22,595,463	81,165,463
NET CHANGES IN FUND BALANCES (DEFICIT)	2,576,986	(12,116,054)	29,171,218	(22,642,654)	(3,010,504)
FUND BALANCES (DEFICIT), AT BEGINNING OF YEAR	(28,513,185)	21,022,820	31,017,739	92,313,859	115,841,233
FUND BALANCES (DEFICIT), AT END OF YEAR	\$ (25,936,199)	\$ 8,906,766	\$ 60,188,957	\$ 69,671,205	\$ 112,830,729

See notes to financial statements.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2004

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

Net change in fund balances - total governmental funds		\$ (3,010,504)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	\$ 54,605,289	
Less loss on disposition of capital assets	(76,586)	
Less current year depreciation	<u>(22,324,244)</u>	32,204,459

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the amount by which proceeds exceeded repayments

Bond, loan and capital lease proceeds	(81,165,463)	
Bond costs	491,822	
Principal payments	<u>42,437,994</u>	(38,235,647)

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 governmental funds.

Amortization of deferred charges		(163,761)
Change in compensated absences accrual		(2,566,799)
Change in landfill obligation		1,000,000
Change in other liabilities		<u>4,424,475</u>
Change in net assets of governmental activities		<u>\$ (6,347,777)</u>

See notes to financial statements.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

1. Organization and Summary of Significant Accounting Policies

The Municipality of San Juan (the "Municipality") was founded in the year 1521. It is the largest municipality and the capital of the Commonwealth of Puerto Rico. The Municipality's governmental system consists of an executive and legislative body. It is governed by a Mayor and a seventeen member Municipal Legislature which are elected for four-year terms.

The Municipality provides public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services.

The Municipality implemented Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*, Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement*, as of July 1, 2001.

A. **Component Units**

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, *The Financial Reporting Entity*, of the GASB, as amended by the GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14*. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Accounting principles generally accepted in the United States of America ("GAAP") details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions. The Comunidad de Retiro is included in the financial statements as a blended component unit.

Comunidad de Retiro (the Project) was formed for the purpose of operating 356 unit housing project for the elderly and/or handicapped. The Project is operated under Section 231 of the National Housing Act, as amended, and regulated by the U.S. Department of Housing and

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

Urban Development as to rent charges and operating methods. Legal title of the Project is held by the Municipality.

Separate financial statements of the individual component unit can be obtained from the respective administrative office.

Administrative office:

Condominio Centro de Altamira
Paseo 501 Street, Suite 210
Urbanización Altamira
San Juan, Puerto Rico 00920

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follows:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for support. Interfund activities have been eliminated from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund – is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and others.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

Debt Service Fund – is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds. Long-term debt and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

Loan Guarantee Fund – is the accounting entity used to account for the loan agreement with the US Department of Housing and Urban Development under a Variable Rate Note guaranteed pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule – general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule – general fund.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Fund types are as follows:

General Fund – The General Fund is the general operating fund of the Municipality. It is used to account for all governmental activities, except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for revenues derived from grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

D. Measurement focus, basis of accounting and financial statement presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conforms to accounting principles generally accepted in the United States of America as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt are reported as other financing sources.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

E. Assets, liabilities and net assets

1. Cash, cash equivalents, and cash with fiscal agent:

The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

the Municipality's debt service, as established by law. Cash with fiscal agent in the other governmental funds consists of unused proceeds of bonds and notes issued for the acquisition and construction of major capital improvements.

2. *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 to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are determined based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority ("PREPA"), which contributes a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs and the amount in the debt service fund represents the distribution of property tax collected by the Municipal Revenue Collection Center (CRIM), which is restricted for the debt service.

3. *Inventories:*

Inventories in the general fund are stated at cost. Inventories consist of supplies held for consumption and medicines used in providing health care services. Inventories are recorded as expenditures at the time the inventory items are consumed (consumption method of accounting). A fund balance reserve equal to the value of the inventories is established in the general fund and in other governmental funds to indicate that the inventories do not constitute expendable financial resources available for appropriation.

4. *Capital assets:*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the government-wide financial statements. The Municipality defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost 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.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Years
Buildings	40
Infrastructure	40
Building and site improvements	15
Works of art	10
Intangible assets	10
Vehicles	5
Equipment	3 to 5

5. *Long-term obligations:*

The liabilities reported in the government-wide financial statements include the general and special obligation bonds, bank and long-term notes, other long-term liabilities, such as vacation, sick leave, claims and judgments, long-term liabilities to other governmental entities and third parties, and landfill postclosure care costs. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

6. *Compensated absences:*

Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of employment. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

7. *Claims and judgments:*

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.

8. *Reservations of fund balance:*

Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

- a. *Inventories and advances* - Represent fund assets that do not represent available financial resources.
- b. *Debt Service Fund* - Represents net assets available to finance future debt service payments.
- c. *Capital Projects* - Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- d. *Encumbrances* - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

9. *Interfund and intra-entity transactions:*

The Municipality has the following types of transactions among funds:

- a. *Transfers* - Legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.
- b. *Intra-Entity Transactions* - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
- c. *Advances* - Represent the amounts advanced among the funds of the Municipality, which are not considered to be currently available financial resources.

10. *Risk financing:*

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. The cost of insurance allocated to the Municipality and deducted from gross property tax collections by the CRIM for the year ended June 30, 2004 amounted to approximately \$12.8 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$7.9 million for workers compensation insurance covering all municipal employees for the year ended June 30, 2004.

11. *Direct charges:*

Pursuant to and determined by an internal cost allocation plan certain costs initially borne by the General Fund are then billed as direct charges to other funds of the Municipality. Revenues from these charges are accounted for in the government-wide Statement of Activities as general government and in the Statement of Revenues, Expenditures and

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

Changes in Fund Balances (Deficit) as charges for services in the general fund. The corresponding expenses appear as function/program costs in the Statement of Activities.

2. Deposits

Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$59.2 million in the general fund were fully collateralized at June 30, 2004. In the loan guarantee and other governmental funds there were deposits with commercial banks of approximately \$63.9 and \$24.2 million that were fully collateralized.

The deposits at GDB at June 30, 2004 of approximately \$80.5 million that are restricted principally for capital projects and the \$45.2 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. Receivables

a) *Municipal License Tax:*

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Municipal License Tax Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$1 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2004, the tax rates were as follows:

- Financial business - 1.50% of gross revenues
- Other organizations - 0.26% for annual revenues up to \$1,000,000, and 0.50% over such volume.

The municipal license tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before five working days after April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2004. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

b) *Intergovernmental Receivables:*

Intergovernmental receivables in the general fund principally consist of the amounts due from the Puerto Rico Electric Power Authority and from the CRIM. The amount due from PREPA represents the amount resulting from the revenues the Municipality is entitled to receive from PREPA in lieu of payment of taxes. The amount due from CRIM represents real and personal property taxes collected by the CRIM on behalf the Municipality and balances that will be

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

collected through the execution of mortgage as established in the Law No. 83 of August 30, 1991, as amended, net of allowance and administrative charges.

The amounts receivable from other governmental entities are as follows:

	Amount
Due from PREPA	\$ 19,513,069
Due from CRIM	16,429,910
Due from Federal Government	<u>1,270,250</u>
Total intergovernmental receivables	<u>\$ 37,213,229</u>

The amount presented in the debt service fund represents the ad valorem tax restricted for debt service collected by the CRIM during 2004.

Intergovernmental receivables in other governmental funds represent principally expenditures incurred not yet reimbursed by the Federal Government. Following is a detail of the intergovernmental receivable:

Description	Amount
HIV Emergency Relief Formula Grant	\$ 2,860,982
Head Start	1,669,937
Community Services Block Grant	1,342,546
Workforce Investment Act	1,223,532
Public Safety Partnerships and Community Policing Grants	838,917
Federal Transit Capital Improvements	367,673
Housing Opportunities for Persons with AIDS	358,124
Supportive Housing Program	347,814
Community Development Block Grant	326,389
Special Program for Aging - Title III	322,177
Risk Reduction	317,697
Cancer Control	193,281
Emergency Shelter Grants	166,526
Others	<u>820,942</u>
Total	<u>\$ 11,156,537</u>

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

- c) *Other:*
Other accounts receivable as of June 30, 2004 are as follows:

	General Fund	Other Governmental Funds	Total
Interest	\$ 323,993	\$	\$ 323,993
Medical Plans	4,165,025		4,165,025
Rent	916,919		916,919
Construction permits	4,992,650		4,992,650
Other	691,947	354,920	1,046,867
Total other receivables	\$ 11,090,534	\$ 354,920	\$ 11,445,454

4. **Interfund Transactions**

Interfund receivables and payables at June 30, 2004 are summarized as follows:

- a) *Advances from/to other fund:*

Receivable Fund	Payable Fund			Total
	Debt Service Fund	Loan Guarantee Fund	Other Governmental Funds	
General	<u>\$ 8,098,263</u>	<u>\$ 406,480</u>	<u>\$ 16,409,605</u>	<u>\$ 24,914,348</u>

- b) *Transfer In (Out)* – On July 3, 1996, the Commonwealth’s legislature enacted Law No. 64, as amended, which authorized municipalities to withdraw the excess of ad valorem taxes over the actual debt service requirement. The Municipality accumulated an excess of approximately \$10.4 million during fiscal year 2004. Approximately \$2.3 million was withdrawn and transferred to the general fund for working capital purposes. The remaining balance of \$8.1 million was recorded as advances to other funds in the general fund because it will be transferred to the general fund during fiscal year 2005.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

5. Capital Assets

Capital assets; those with an estimated useful live of two years or more from the time of acquisition by the Municipality and a cost of \$5,000 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in fiscal 2004, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance			Balance
	July 1, 2003	Additions	Retirements	June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 56,550,722	\$	\$	\$ 56,550,722
Construction in progress	<u>103,910,586</u>	<u>50,872,827</u>	<u>(78,096,189)</u>	<u>76,687,224</u>
Total capital assets not being depreciated	<u>160,461,308</u>	<u>50,872,827</u>	<u>(78,096,189)</u>	<u>133,237,946</u>
Capital assets, being depreciated:				
Buildings and building improvements	262,718,569	37,665,610		300,384,179
Site improvements	125,926,305	25,296,450		151,222,755
Infrastructure	55,051,753	15,839,171		70,890,924
Equipment	38,212,597	2,393,890	(335,495)	40,270,992
Works of art	5,492,999			5,492,999
Intangible	3,825,426			3,825,426
Vehicles	<u>32,904,796</u>	<u>633,530</u>	<u>(120,160)</u>	<u>33,418,166</u>
Total capital assets being depreciated	<u>524,132,445</u>	<u>81,828,651</u>	<u>(455,655)</u>	<u>605,505,441</u>
Less accumulated depreciation for:				
Buildings and building improvements	(65,466,696)	(9,706,374)		(75,173,070)
Site improvements	(37,300,608)	(5,480,514)		(42,781,122)
Infrastructure	(21,497,631)	(3,914,708)		(25,412,339)
Equipment	(31,308,569)	(806,248)	279,731	(31,835,086)
Works of art	(1,542,538)	(430,044)		(1,972,582)
Intangible	(1,147,629)	(382,543)		(1,530,172)
Vehicles	<u>(29,197,869)</u>	<u>(1,603,813)</u>	<u>99,338</u>	<u>(30,702,344)</u>
Total accumulated depreciation	<u>(187,461,540)</u>	<u>(22,324,244)</u>	<u>379,069</u>	<u>(209,406,715)</u>
Total capital assets being depreciated, net	<u>336,670,905</u>	<u>59,504,407</u>	<u>(76,586)</u>	<u>396,098,726</u>
Governmental activities capital assets, net	<u>\$ 497,132,213</u>	<u>\$ 110,377,234</u>	<u>\$(78,172,775)</u>	<u>\$ 529,336,672</u>

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

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

Governmental activities:	<u>Amount</u>
General government	\$ 1,324,742
Public safety	753,570
Public works	2,304,427
Culture and recreation	3,803,574
Health and welfare	4,601,005
Urban development	4,421,111
Economic development	4,689,631
Education	<u>426,184</u>
Total depreciation expense - governmental activities	<u>\$ 22,324,244</u>

6. Property Taxes

The personal property tax is self-assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the Government of Puerto Rico by the Law No. 80 of August 30, 1991, as amended. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

The difference between the preliminary advances and the final settlement from the CRIM for fiscal year 2004 was approximately \$2.6 million. Total advances from the CRIM presented in the statement of net assets amounted to approximately \$37.8 million at June 30, 2004.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of the Law No. 83 of August

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate for fiscal year 2004 was 8.25% for real property and 6.25% for personal property of which 1.03% of both tax rates is for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.75% and 3.75%, respectively, represents the Municipality's basic property tax rate of which the Commonwealth also contributes an annual tax of 0.2% of the property tax collected, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.47% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

7. Deferred Revenues

a) *Municipal License Tax:*

Deferred revenues of approximately \$102.1 million in the general fund at June 30, 2004 relate to municipal license taxes collected in fiscal 2004 that will be earned in fiscal 2005.

b) *Federal Government:*

The deferred revenues presented in other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

Program Description	Amount
Section 8 Housing Choice Vouchers	\$ 7,376,736
WESTAT	1,923,646
Welfare to Work Grants to States and Localities	746,351
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	702,132
Drug Free Communities Support Program Grants - Equitable Sharing	428,795
Maternal Child and Health Services Block Grant	297,491
Child and Adult Care Food Program	226,698
Higher Education Institutional Aid - Title V	174,768
Childhood Immunization Grants	169,891
Miscellaneous	230,962
Total	<u>\$ 12,277,470</u>

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

8. Long-Term Debt

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 373,580,000	\$ 16,610,000	\$ (24,730,000)	\$ 365,460,000	\$ 24,820,000
Mortgage payable	5,901,111		(188,332)	5,712,779	204,979
Notes payable	61,965,000	59,740,000	(6,980,000)	114,725,000	4,255,000
Advances from CRIM	40,931,876		(3,118,986)	37,812,890	3,141,062
Obligations under capital leases	5,647,851	4,815,463	(3,587,519)	6,875,795	2,865,207
Compensated absences	33,617,385	5,070,543	(2,503,744)	36,184,184	2,500,000
Claims and judgments	3,000,000			3,000,000	1,000,000
Landfill obligation	22,718,490		(1,000,000)	21,718,490	800,000
Other liabilities	26,708,036		(8,257,632)	18,450,404	2,500,000
	<u>\$ 574,069,749</u>	<u>\$ 86,236,006</u>	<u>\$ (50,366,213)</u>	<u>\$ 609,939,542</u>	<u>\$ 42,086,248</u>
Total					

a) *Legal debt margin:*

The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Total property assessed value at June 30, 2004 amounted to approximately \$4.17 billion. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

b) *Bonds payable:*

The Municipality issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. During fiscal 2004, the Municipality issued bonds for approximately \$16.6 million. Bonds payable outstanding at June 30, 2004 are as follows:

2003 general obligation bonds due in annual installments of \$415,000 to \$620,000, through July 1, 2028; with interest ranging from 1.65% to 3.50%	\$ 12,420,000
2003 general obligation bonds due in annual installments of \$515,000 to \$565,000, through July 1, 2010; with interest ranging from 1.65% to 3.50%	3,260,000
2002 general obligation bonds due in annual installments of \$210,000 to \$950,000, through July 1, 2027; with interest ranging from 5.00% to 6.50%	11,890,000
2002 general obligation bonds due in annual installments of \$180,000 to \$815,000, through July 1, 2027; with interest ranging from 5.00% to 6.50%	10,185,000
2001 serial bonds due in annual installments of \$1,080,000 to \$1,475,000, through July 1, 2006; with interest ranging from 5.00% to 8.00%	2,835,000
2001 serial bonds due in annual installments of \$760,000 to \$4,825,000, through July 1, 2026; with interest ranging from 5.00% to 8.00%	53,100,000
2002 serial bonds due in annual installments of \$445,000 to \$590,000, through July 1, 2006; with interest ranging from 5% to 7.25%	1,140,000
2001 serial bonds due in annual installments of \$475,000 to \$695,000, through July 1, 2013; with interest at 6.13%	8,040,000
2000 serial bonds due in annual installments of \$970,000 to \$1,605,000, through July 1, 2015; with interest at 5.88%	21,025,000
2002 general obligations bonds due in annual installments of \$1,740,000 to \$2,610,000, through July 1, 2018; with interest ranging from 4.90% to 6.50%	55,040,000

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

	<u>Outstanding Amount</u>
1999 serial bonds due in annual installments of \$3,010,000 to \$4,515,000, through July 1, 2013; with interest ranging from 6.00% to 7.00%	50,555,000
1999 general obligations bonds due in annual installments of \$2,120,000 to \$3,180,000, through July 1, 2016; with interest ranging from 6.00% to 7.00%	53,160,000
1998 serial bonds due in annual installments of \$1,375,000 to \$2,120,000, through July 1, 2017; with interest ranging from 6.70% to 7.50%	41,000,000
1998 general obligations bonds due in annual installments of \$405,000 to \$625,000, through July 1, 2019; with interest ranging from 6.70% to 7.50%	15,185,000
1996 serial bonds due in annual installments of \$1,215,000 to \$1,925,000, through July 1, 2011; with interest ranging from 4.70% to 6.60%	15,905,000
1996 general obligations bonds due in annual installments of \$575,000 to \$910,000, through July 1, 2009; with interest ranging from 6.50% to 8.00%	4,940,000
1992 serial bonds due in annual installments of \$1,335,000 to \$2,015,000, through July 1, 2005; with interest ranging from 3.20% to 6.30%	2,015,000
1987 serial bonds due in annual installments of \$1,225,000 to \$1,955,000, through July 1, 2006; with interest ranging from 8.20% to 9.00%	<u>3,765,000</u>
Total	<u>\$ 365,460,000</u>

These bonds are payable from the ad valorem property tax of 1.47% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

Annual debt service requirements to maturity for bonds payable are as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 24,820,000	\$ 19,877,252
2006	24,465,000	18,597,468
2007	21,875,000	17,385,504
2008	23,430,000	16,182,454
2009	25,090,000	14,867,548
2010 - 2014	126,405,000	52,475,260
2015 - 2019	75,615,000	20,984,157
2020 - 2024	27,075,000	8,620,311
2025 - 2028	<u>16,685,000</u>	<u>1,200,160</u>
Total	<u>\$ 365,460,000</u>	<u>\$ 170,190,114</u>

c) *Mortgage payable:*

The mortgage loan payable to the federal government bears interest at 8.5% and is secured by the Federal Housing Administration and by a first mortgage on rental property. Principal and interest are payable from the proceeds of the rent collected from the tenants. The Federal government provides housing assistance payments to qualified tenants to subsidize most of the monthly rent. This housing project is administered by a private entity.

Aggregate annual maturities of the mortgage payable are as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 204,979	\$ 477,723
2006	223,097	459,604
2007	242,817	439,885
2008	264,279	418,422
2009	287,639	395,062
2010 - 2014	1,867,599	1,545,907
2015 - 2019	<u>2,622,369</u>	<u>563,550</u>
Total	<u>\$ 5,712,779</u>	<u>\$ 4,300,153</u>

d) *Notes payable:*

The Municipality has various notes payable to GDB for approximately \$10 million. The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years. The notes bear interest ranging from 5% to 8% and are payable semi-annually, and mature at various dates through July 1, 2005.

During July 2002, the Municipality issued note payable to the Government Development Bank for approximately \$23.7 million. The note bears interest ranging from 5% to 7.5% and is

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

payable semi-annually, and mature at various dates through July 1, 2027. The proceeds of the note are being used for working capital purposes and will be repaid through withholdings of property tax advances by CRIM.

During February 2004, the Municipality issued a note payable to GDB for approximately \$1.1 million. The note is payable in annual installments of \$140,000 to \$200,000 through July 2010 and bears interest at 1.25% over 90 day LIBOR with a minimum of 5% and maximum of 12% (5% at June 30, 2004). The proceeds of the note were used to purchase of equipment.

During February 2004, the Municipality issued a note payable to GDB for approximately \$17.2 million. The note is payable in annual installments of \$1.3 million to \$2.2 million through July 2013 and bears interest at 1.25% over 90 day LIBOR with a minimum of 5% and maximum of 12% (5% at June 30, 2004). The proceeds of the note were used principally to pay debt incurred in prior years.

In addition, the Municipality entered into a loan agreement with the US Department of Housing and Urban Development under a Variable Rate Note guaranteed pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended. The note was issued to finance the future acquisition and construction of major capital facilities, and allows borrowings up to a maximum of \$72,515,000. Borrowings during fiscal 2004 amounted to \$41,330,000. The borrowings are payable in annual installments, mature at various dates through July 2022 and bear interest at 0.2% over 90 day LIBOR (1.80% at June 30, 2004).

The notes are payable as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 4,255,000	\$ 4,141,098
2006	4,740,000	3,914,548
2007	5,020,000	3,737,914
2008	5,310,000	3,550,138
2009	5,620,000	3,351,042
2010 - 2014	30,235,000	13,377,802
2015 - 2019	29,095,000	8,785,398
2020 - 2024	24,925,000	4,364,060
2025 - 2027	<u>5,525,000</u>	<u>849,000</u>
Total	<u>\$ 114,725,000</u>	<u>\$ 46,071,000</u>

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

e) Advances from CRIM:

This amount represents the balance owed to CRIM at June 30, 2004, which will be repaid through a financing obtained by the CRIM with GDB, as authorized by law.

On December 31, 1992, the Municipality entered into a non-interest bearing agreement with the Commonwealth of Puerto Rico for the repayment of excess property tax advances. As of June 30, 2004, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$11 million.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200 million, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections for fiscal years 1999 and 2000. The amounts that the Municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Central Government to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999.

During September 2002, the Municipality entered into a repayment agreement with the GDB and the CRIM to repay the remaining \$27.4 million of excess property tax advances from fiscal years 1999 and 2000. The CRIM will retain the principal and interest from the property tax advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance at June 30, 2004 approximates \$26.8 million. The repayment agreement bears interest at a fixed interest rate of 6.19%.

The advances are payable as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 3,141,062	\$ 1,656,029
2006	3,164,505	1,632,587
2007	3,189,398	1,607,694
2008	3,215,832	1,581,261
2009	481,705	1,553,192
2010 - 2014	2,894,244	7,280,240
2015 - 2019	3,907,529	6,266,956
2020 - 2024	5,275,567	4,898,918
2025 - 2029	7,122,562	3,051,923
2030 - 2032	5,420,486	684,202
Total	<u>\$ 37,812,890</u>	<u>\$ 30,213,002</u>

f) Obligations under capital leases:

The Municipality has entered into various capital lease agreements to finance the acquisition of equipment mainly related to the implementation of information systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. At June

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

30, 2004, capitalized assets amounting to approximately \$20.8 million is recognized as equipment in the statement of net assets.

During July 2003, the Municipality entered into a non-revolving line of credit with a commercial bank for \$5.5 million. The line of credit matures in five years and bears interest at a fixed interest rate of 3.85%. Outstanding balance on line of credit amounted to approximately \$4.8 million at June 30, 2004. The proceeds of the line were used for improvements to the data processing network and for the acquisition of medical equipment.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2004, were as follows:

Year Ending June 30,	Amount
2005	\$3,046,916
2006	1,511,256
2007	1,177,153
2008	1,060,301
2009	<u>509,188</u>
Total minimum lease payments	7,304,814
Less amount representing interest (ranging from 1.66% to 7.40%)	<u>429,019</u>
Present value of minimum lease payments	<u>\$6,875,795</u>

g) Compensated absences:

The government-wide statement of net assets includes approximately \$18.6 million of accrued sick leave benefits, and approximately \$17.6 million of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

h) Landfill obligation:

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In December 2000, the Municipality's landfill facilities were closed. Based on current costs, the preliminary annual estimate of postclosure costs has been assessed approximately to be \$800,000 for a period of approximately 28 years. The balance of postclosure costs of approximately \$21.7 million is reported in the government-wide statement of net assets. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations.

i) Other liabilities:

Other liabilities include approximately \$8.9 million of pension costs for all the employees that elected early retirement benefits pending the final billing to and collection of the amount from the Employees' Retirement System of the Commonwealth and its Instrumentalities, \$5.5 million

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

accrued for possible claims arising from federal cost disallowances as a result of current and prior audits of federally financed programs, approximately \$1.8 million due to the Puerto Rico State Insurance Fund under a non-interest bearing payment plan related to a deficiency in workmen's compensation insurance costs during fiscal years 2000, 2001 and 2002 and approximately \$2.2 million due to the CRIM in connection with a project to establish an automated information system.

9. Pension Plan

Employees of the Municipality participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the System). The System is cost-sharing multi-employer defined benefit pension plan sponsored by the Commonwealth of Puerto Rico under the terms of Act No. 447 of 1951, as amended. Participation is mandatory for regular employees. The System issues a publicly available financial report that includes its financial statements and required supplementary information.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average compensation, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average compensation, as defined. Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average compensation, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable service.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average compensation, as defined, for all years of creditable service, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average compensation, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% or 8.275% of their monthly gross salary. The Municipality is required to contribute 9.275% of its employees' gross salaries.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

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 System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new 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 Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% of the employees' 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. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employees' salary) will be used to fund the current plan.

System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600 8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

Total employee contributions to the above-mentioned plans during the year ended June 30, 2004 amounted to approximately \$9.1 million. The Municipality's contributions during the years ended June 30, 2004, 2003 and 2002 amounted to approximately \$11.3 million, \$10.5 million, and \$10.2 million, respectively. These amounts represented 100% of the required contribution for the corresponding year.

The Municipality follows the provisions of GASB No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which requires employers that participate in cost-sharing multi-employer defined-benefit pension plans to recognize pension expenditures/expense equal to the employer's contractually required contributions and a liability for unpaid contributions.

Additional information on the System is provided in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, PO Box 42003, San Juan, PR 00940-2003.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements
Year ended June 30, 2004

10. Risk Management

The Risk Management Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The Municipality maintained a claims-made policy since October 15, 1990 for the purpose of providing professional and patient care liability insurance with liability limits of \$300,000 for each medical incident and \$2 million for aggregate incidents. The effective date of the policy is from January 24, 2004, through January 24, 2005. The Municipality also obtained tail insurance coverage for incidents incurred but not reported prior to October 14, 1990.

11. Commitments

a) *Operating Leases:*

The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the general fund and in other governmental funds for the year ended June 30, 2004, amounted to approximately \$4 million and \$2.3 million, respectively. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not significant.

b) *Construction:*

The Municipality had commitments at June 30, 2004 of approximately \$62.6 million for the construction, improvements, or renovation of several municipal facilities.

c) *Electric Energy Infrastructure:*

The Law No. 83 of May 1941, as amended, established that PREPA will pay a contribution to the Municipalities equal to 7 percent of PREPA's net income in lieu of municipal taxes. In May, 2004, PREPA entered into an agreement to settle balance owed to all municipalities for previous years. As part of this agreement, PREPA paid approximately \$10 million to the Municipality. In addition, PREPA will absorb the cost of approximately of \$8.4 million for future electric energy construction of infrastructure assets, as approved by the Municipality, through fiscal year 2007.

12. Contingencies

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged medical malpractice, civil rights and collections claims.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Financial Statements Year ended June 30, 2004

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$3 million at June 30, 2004, for anticipated unfavorable judgments. These amounts were included in the financial statements and represent the amounts estimated as probable liabilities, which will require future available financial resources for its payment.

It is management's opinion, based on their advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "*Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133*" for the year ended June 30, 2004, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors.

13. Subsequent Events

During September 2004, the Municipality issued a general obligation bond that amounted to \$10 million for capital improvements. The bond will be due in annual installments through July 2019 and will bears interest at 90-day LIBOR plus 1.25 percent.

In addition, the Municipality issued a general obligation bond that amounted to \$22.1 million to repay certain debts accrued at June 30, 2004. The bond will be due in annual installments through July 2027 and will bears interest at 90-day LIBOR plus .40 percent.

During November 2004, the Municipality entered into a Bond Purchase Agreement to issue a special obligation refinancing bonds that amounted to \$40 million to repay certain debts accrued at June 30, 2004. The bond will be due in annual installments through July 2029 and will bears interest at 90-day LIBOR plus .55 percent.

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MUNICIPALITY OF SAN JUAN, PUERTO RICO

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year ended June 30, 2004

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts (Budgetary Basis) (See Note 1)	Final Budget - Positive (Negative)
REVENUES:				
Property taxes	\$ 136,670,261	\$ 169,677,472	\$ 169,392,475	\$ (284,997)
Municipal license tax	122,614,700	119,463,489	119,463,489	-
Licenses, permits and other local taxes	16,844,000	25,210,288	25,210,288	-
Charges for services	36,135,100	49,590,273	49,590,273	-
Fines and forfeitures	4,550,000	4,027,319	4,027,319	-
Interest	6,500,000	2,860,013	2,860,013	-
Intergovernmental - federal	-	-	354,980	354,980
Intergovernmental - local	21,698,951	32,381,890	32,381,890	-
Other	1,155,000	20,393,198	20,393,198	-
Transfer from other fund	-	10,431,126	10,431,126	-
Total revenues	<u>346,168,012</u>	<u>434,035,068</u>	<u>434,105,051</u>	<u>69,983</u>
EXPENDITURES:				
Current:				
General government	102,908,728	116,256,340	106,364,919	9,891,421
Public safety	34,340,690	40,019,552	40,019,552	-
Public works	38,459,092	57,333,030	57,333,030	-
Culture and recreation	7,096,300	9,466,160	9,466,160	-
Health and welfare	146,963,266	185,103,731	185,103,731	-
Urban development	4,258,037	4,708,549	4,708,549	-
Economic development	7,062,111	14,948,408	14,948,408	-
Education	5,079,788	6,199,298	6,199,298	-
Total expenditures	<u>346,168,012</u>	<u>434,035,068</u>	<u>424,143,647</u>	<u>9,891,421</u>
EXCESS OF REVENUES OVER EXPENDITURES			<u>\$ 9,961,404</u>	<u>\$ 9,961,404</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 434,105,051
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				(10,431,126)
The proceeds from the issuance of long-term debt are budgetary resources but are regarded as Other Financing Sources for financial reporting purposes				(17,240,000)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 406,433,925</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 424,143,647
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				35,279,795
Prior year encumbrances written off accordingly to statutory limitations				(4,316,976)
Current year encumbrances recorded as expenditures for budgetary purposes				(23,578,401)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 431,528,065</u>

See notes to budgetary comparison schedule.

MUNICIPALITY OF SAN JUAN, PUERTO RICO

Notes to Budgetary Comparison Schedule – General Fund
Year ended June 30, 2004

1. Stewardship, Compliance and Accountability

A. *Budgetary Control*

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of certain appropriations within the budget, known as Mayor's Executive Orders, do not require the approval of the Municipal Legislature. The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2004 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2004.

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MUNICIPALITY OF SAN JUAN, PUERTO RICO
 Combining Balance Sheet
 Other Governmental Funds
 June 30, 2004

	Special Revenue Funds						Capital Project Funds			Total Other Governmental Funds
	Department of Justice Funds	Department of Labor Funds	Health & Human Services Funds	Housing & Urban Development Funds	Miscellaneous Special Revenues Funds	Comunidad de Retiro	Joint Resolution Funds	Citizen Participation Funds	Various Bond Issue Funds	
ASSETS										
Cash and cash equivalents	\$ 343	\$ 425,662	\$ 3,412,692	\$ 12,180,871	\$ 1,033,109	\$ 5,803	\$ 5,317,834	\$ 2,290,110		\$ 24,666,424
Cash with fiscal agent									80,571,707	80,571,707
Accounts receivable - intergovernmental	985,115	1,224,315	6,564,559	1,216,834	965,714			200,000		11,156,537
Accounts receivable - other	2,056	4,365	129,371	63,241	35,823	120,064				354,920
Inventories			3,657,288							3,657,288
Restricted assets - cash and cash equivalents						4,170,212				4,170,212
Total assets	\$ 987,514	\$ 1,654,342	\$ 13,763,910	\$ 13,460,946	\$ 2,034,646	\$ 4,296,079	\$ 5,317,834	\$ 2,490,110	\$ 80,571,707	\$ 124,577,088
LIABILITIES AND FUND BALANCES (DEFICIT)										
Liabilities										
Accounts payable and accrued liabilities	\$ 17,268	\$ 528,775	\$ 847,352	\$ 1,919,772	\$ 671,201	\$ 403,368	\$ 182,353	\$ 52,322	\$ 21,596,397	\$ 26,218,808
Advances from other fund	386,783	656,754	7,230,575	1,977,301	2,231,981		1,454,657	1,680,059	791,495	16,409,605
Deferred revenues	430,502	746,351	2,463,741	8,106,413	530,463					12,277,470
Total liabilities	834,553	1,931,880	10,541,668	12,003,486	3,433,645	403,368	1,637,010	1,732,381	22,387,892	54,905,883
Fund balances/(deficit):										
Reserved for inventories			3,657,288							3,657,288
Reserved for capital projects							3,680,824	757,729	58,183,815	62,622,368
Unreserved in Special Revenue Funds	152,961	(277,538)	(435,046)	1,457,460	(1,398,999)	3,892,711				3,391,549
Total fund balances/(deficit)	152,961	(277,538)	3,222,242	1,457,460	(1,398,999)	3,892,711	3,680,824	757,729	58,183,815	69,671,205
Total liabilities and fund balances/(deficit)	\$ 987,514	\$ 1,654,342	\$ 13,763,910	\$ 13,460,946	\$ 2,034,646	\$ 4,296,079	\$ 5,317,834	\$ 2,490,110	\$ 80,571,707	\$ 124,577,088

MUNICIPALITY OF SAN JUAN, PUERTO RICO
 Combing Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
 Other Governmental Funds
 Year ended June 30, 2004

	Special Revenue Funds					Capital Project Funds			Total Other Governmental Funds
	Department of Justice Fund	Department of Labor Funds	Health & Human Services Funds	Housing & Urban Development Funds	Miscellaneous Special Rev Funds	Comunidad de Retiro	Joint Resolution Funds	Citizen Participation Funds	
REVENUES									
Charges for services	\$	\$	\$	\$ 585	\$	\$	\$	\$	\$ 585
Interest	33	459	14,529	6,155	757		3,092		25,025
Intergovernmental Federal	2,404,943	9,477,957	43,458,139	52,079,880	7,938,960	1,940,333			117,300,212
Intergovernmental Local				815,500			1,559,905	568,137	2,943,542
Other	175,784	321,968	2,532,741	152,428	1,975,673		1,097,171	3,463,880	9,719,645
Total revenues	2,580,760	9,800,384	46,005,409	53,054,548	9,915,390	1,940,333	2,660,168	568,137	129,989,009
EXPENDITURES:									
Current:									
General government	60	492	11,175	15,184	4,730,606		714,402	333,116	8,224,286
Public safety	2,323,995			433,319	366,859		1,121	168,065	3,293,359
Public works				25,000			26,981	5,976,748	6,028,729
Culture and recreation				825,238	1,665,654		228,009	284,323	3,003,224
Health and welfare	91,403	3,842	45,086,923	3,462,586	2,757,252		227,367	517,599	53,850,401
Urban development				37,968,867		2,010,048	20,767	784,706	40,784,388
Economic development		9,976,854		5,119,565	88,255		54,332	768,414	16,007,420
Education		118,971			3,028,562		1,958	130,202	3,279,693
Capital outlays			45,000	4,347,206	946,006	15,670	140,708	35,167,199	40,661,789
Interest and other charges								93,837	93,837
Total expenditures	2,415,458	10,100,159	45,143,098	52,196,965	13,583,194	2,025,718	1,415,645	2,936,850	175,227,126
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	165,302	(299,775)	862,311	857,583	(3,667,804)	(85,385)	1,244,523	(2,368,713)	(41,946,159)
OTHER FINANCING SOURCES									
Bonds issued								16,610,000	16,610,000
Note payable issued								1,170,000	1,170,000
Lease agreements issued					4,815,463				4,815,463
Total other financing sources					4,815,463			17,780,000	22,595,463
NET CHANGES IN FUND BALANCES (DEFICIT)	165,302	(299,775)	862,311	857,583	1,147,659	(85,385)	1,244,523	(2,368,713)	(22,642,654)
FUND BALANCE (DEFICIT), AT BEGINNING YEAR	(12,341)	22,237	2,359,931	599,877	(2,546,658)	3,978,096	2,436,301	3,126,442	92,313,859
FUND BALANCES (DEFICIT), AT END OF YEAR	\$ 152,961	\$ (277,538)	\$ 3,222,242	\$ 1,457,460	\$ (1,398,999)	\$ 3,892,711	\$ 3,680,824	\$ 757,729	\$ 58,183,815

STATISTICAL
SECTION



SAN JUAN, CIUDAD CAPITAL

MUNICIPALITY OF SAN JUAN, PUERTO RICO

General Governmental Expenditures by Function - In Thousands

Last Ten Fiscal Years

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
General government	\$ 99,332	\$ 81,465	\$ 73,653	\$ 91,086	\$ 86,608	\$ 89,690	\$ 56,827	\$ 57,860	\$ 40,970	\$ 45,509
Public safety	43,271	38,317	34,984	33,157	25,435	21,235	17,083	12,618	11,635	11,092
Public works	64,735	59,705	48,968	42,445	50,237	42,330	40,484	40,024	35,558	36,258
Culture and recreation	12,532	11,127	9,865	9,840	12,621	3,915	3,092	3,831	3,302	3,506
Health and welfare	240,287	221,444	208,681	111,145	68,489	60,158	51,208	48,827	43,476	47,994
Urban development	47,683	48,918	42,688	46,094	55,391	57,796	49,628	46,866	43,822	35,419
Economic development	29,477	29,378	29,284	17,315	9,785	8,587	7,545	-	-	-
Education	9,685	8,677	7,790	6,930	7,437	6,912	5,950	4,855	4,271	4,423
Capital outlays	54,605	51,178	48,485	110,036	155,367	56,885	27,779	27,298	8,638	12,817
Debt service	63,103	46,225	44,974	39,635	38,227	24,623	16,058	15,427	14,065	15,655
Total	<u>\$ 664,710</u>	<u>\$ 596,434</u>	<u>\$ 549,372</u>	<u>\$ 507,683</u>	<u>\$ 509,597</u>	<u>\$ 372,131</u>	<u>\$ 275,654</u>	<u>\$ 257,606</u>	<u>\$ 205,737</u>	<u>\$ 212,673</u>

Note 1: This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Funds.

Note 2: The Economic Development Department was created in fiscal year 1998.

MUNICIPALITY OF SAN JUAN , PUERTO RICO
General Governmental Revenues by Source - In Thousands
Last Ten Fiscal Years

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Property taxes	\$ 213,471	\$ 187,252	\$ 182,031	\$ 168,677	\$ 181,053	\$ 195,111	\$ 170,650	\$ 133,585	\$ 116,149	\$ 108,981
Municipal license tax	119,463	97,531	94,623	88,962	77,869	68,190	63,468	60,215	52,810	52,324
Licenses, permits and other local taxes	25,210	18,995	5,456	1,530	1,989	2,420	1,702	1,439	947	797
Charges for services	49,591	45,090	39,968	8,890	7,968	6,913	7,351	7,044	6,547	7,099
Fines and forfeitures	4,027	4,073	3,650	4,662	3,063	2,601	3,160	3,749	3,770	4,314
Interest	2,918	5,571	8,477	13,021	18,131	12,929	7,516	5,486	3,097	2,547
Intergovernmental:										
Federal	117,655	133,290	108,003	107,507	115,836	116,312	98,140	101,415	91,034	88,051
Local	35,325	24,610	20,931	17,843	16,104	21,874	19,481	17,255	15,736	16,340
Other	12,873	2,877	2,051	3,841	10,488	5,821	3,754	4,207	2,786	2,845
Total	<u>\$ 580,533</u>	<u>\$ 519,289</u>	<u>\$ 465,190</u>	<u>\$ 414,933</u>	<u>\$ 432,501</u>	<u>\$ 432,171</u>	<u>\$ 375,222</u>	<u>\$ 334,395</u>	<u>\$ 292,876</u>	<u>\$ 283,298</u>

Note: This schedule includes revenues of the General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Funds.

MUNICIPALITY OF SAN JUAN , PUERTO RICO**Property Tax Levies and Collections****Last Ten Fiscal Years**

Fiscal Year	Total Tax Levy	Current Tax Collections	Delinquent Tax Collections	Total Tax Collections
2004	\$ 204,713,155	\$ 169,956,172	\$ 22,496,886	\$ 192,453,058
2003	198,080,245	163,808,303	19,917,165	183,725,468
2002	198,674,272	158,037,562	14,021,898	172,059,460
2001	185,418,877	156,358,296	14,633,000	170,991,296
2000	184,132,132	156,567,614	16,813,393	173,381,007
1999	177,359,137	141,005,644	12,406,402	153,412,046
1998	172,329,758	144,362,564	17,959,995	162,322,559
1997	120,552,632	117,924,032	18,622,554	136,546,586
1996	117,295,242	99,105,884	14,574,638	113,680,522
1995	117,243,005	89,031,438	11,089,682	100,121,120

Source: Municipal Revenue Collection Center.

MUNICIPALITY OF SAN JUAN , PUERTO RICO
Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Gross Valuation	Exempted Value	Exonerated Value	Net Assessed Value
2004	\$ 4,174,615,292	\$ 382,614,725	\$ 854,988,387	\$ 2,937,012,180
2003	3,723,854,289	344,206,525	852,151,396	2,527,496,368
2002	3,623,201,467	217,449,224	793,848,390	2,611,903,853
2001	3,711,617,515	222,755,581	813,220,467	2,675,641,467
2000	3,851,525,046	374,478,695	811,085,595	2,665,960,756
1999	3,851,525,046	374,478,695	811,085,595	2,665,960,756
1998	3,996,184,686	361,317,707	800,542,576	2,834,324,403
1997	3,385,671,096	288,022,084	790,146,696	2,307,502,316
1996	3,216,387,541	273,620,980	750,639,361	2,192,127,200
1995	3,504,778,471	421,175,556	787,201,132	2,296,401,783

Source: Municipal Revenue Collection Center.

MUNICIPALITY OF SAN JUAN , PUERTO RICO

Property Tax Rates
Last Ten Fiscal Years

Real Property

Fiscal Year	General Purposes	Debt Services	Commonwealth of Puerto Rico	Discount	Total
2004	5.75%	1.47%	1.03%	0.20%	8.25%
2003	5.75%	1.47%	1.03%	0.20%	8.25%
2002	5.75%	1.47%	1.03%	0.20%	8.25%
2001	5.75%	1.47%	1.03%	0.20%	8.25%
2000	5.75%	1.47%	1.03%	0.20%	8.25%
1999	5.75%	1.47%	1.03%	0.20%	8.25%
1998	5.75%	1.47%	1.03%	0.20%	8.25%
1997	5.00%	0.43%	1.03%	0.20%	6.46%
1996	5.00%	0.43%	1.03%	0.20%	6.46%
1995	5.00%	0.43%	1.03%	0.20%	6.46%

Personal Property

Fiscal Year	General Purposes	Debt Services	Commonwealth of Puerto Rico	Discount	Total
2004	3.75%	1.47%	1.03%	0.20%	6.25%
2003	3.75%	1.47%	1.03%	0.20%	6.25%
2002	3.75%	1.47%	1.03%	0.20%	6.25%
2001	3.75%	1.47%	1.03%	0.20%	6.25%
2000	3.75%	1.47%	1.03%	0.20%	6.25%
1999	3.75%	1.47%	1.03%	0.20%	6.25%
1998	3.75%	1.47%	1.03%	0.20%	6.25%
1997	3.00%	0.43%	1.03%	0.20%	4.46%
1996	3.00%	0.43%	1.03%	0.20%	4.46%
1995	3.00%	0.43%	1.03%	0.20%	4.46%

Source: Municipal Revenue Collection Center.

MUNICIPALITY OF SAN JUAN , PUERTO RICO
Computation of Legal Debt Margin - In Thousands
June 30, 2004

Assessed Value of Taxable Property	<u>\$ 4,174,615</u>
Legal debt margin - 10% of assessed value of taxable property	\$ 417,462
Total of general obligation debt applicable to the legal debt margin net of fund balance in debt service fund	<u>355,416</u>
Legal debt margin	<u>\$ 62,046</u>

MUNICIPALITY OF SAN JUAN , PUERTO RICO

Data on Net Bonded Debt

Last Ten Fiscal Years

Fiscal Year	Population	In thousands				Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
		Assessed Value	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt		
2004	433,733	\$ 2,937,012	\$ 390,190	\$ 45,763	\$344,427	11.73%	\$ 794
2003	433,412	2,527,496	373,580	46,225	327,355	12.95%	755
2002	436,000	2,611,903	373,940	45,502	328,438	12.57%	753
2001	435,367	2,675,641	352,300	64,068	288,232	10.77%	662
2000	434,374	2,665,961	333,590	63,678	269,912	10.12%	621
1999	439,427	2,665,961	274,375	60,656	213,719	8.02%	486
1998	437,000	2,834,324	144,190	52,005	92,185	3.25%	211
1997	436,334	2,307,502	65,560	23,450	42,110	1.82%	97
1996	437,780	2,192,127	35,555	12,570	22,985	1.05%	53
1995	439,037	2,296,402	40,430	10,905	29,525	1.29%	67

Source: Municipal Revenue Collection Center.

MUNICIPALITY OF SAN JUAN , PUERTO RICO

Ratio of Annual Debt Service Expenditures for General Bonded Debt to

Total General Governmental Expenditures - In Thousands

Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service To General Governmental Expenditures
2004	\$ 24,730	\$ 21,033	\$ 45,763	\$ 664,710	6.88%
2003	23,240	21,528	44,768	596,434	7.51%
2002	23,300	21,674	44,974	549,372	8.19%
2001	19,535	20,101	39,636	507,683	7.81%
2000	16,825	19,231	36,056	509,598	7.08%
1999	12,865	10,845	23,710	372,131	6.37%
1998	9,335	6,008	15,343	275,771	5.56%
1997	8,640	4,839	13,479	255,605	5.27%
1996	6,180	3,233	9,413	205,737	4.58%
1995	7,540	3,669	11,209	212,673	5.27%

Note: Total general expenditures include expenditures of the General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Funds.

MUNICIPALITY OF SAN JUAN , PUERTO RICO

Demographic Statistics

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>Employment</u>	<u>Unemployment Rate</u>
2004	433,733	172,905	6.70%
2003	433,412	167,000	7.50%
2002	436,000	159,820	7.75%
2001	435,367	153,900	6.80%
2000	434,374	154,100	7.20%
1999	439,427	152,900	8.00%
1998	437,000	153,400	9.50%
1997	436,334	151,600	8.70%
1996	437,780	150,100	9.00%
1995	439,037	144,200	9.70%

Population Density

<u>Square Miles</u>	<u>Population Per Square Mile</u>
47.8	9,067

Source: U.S. Department of Commerce, Bureau of Census.

MUNICIPALITY OF SAN JUAN , PUERTO RICO
Construction and Bank Deposits For the Last Ten Fiscal Years
Last Ten Fiscal Years

	<u>Commercial Construction</u>		<u>Residential Construction</u>		<u>Bank Deposits</u>
<u>Calendar year</u>	<u>Square feet of site approved</u>	<u>Value in (thousands of dollars)</u>	<u>Square feet of site approved</u>	<u>Value in (thousands of dollars)</u>	<u>Value in (thousands of dollars)</u>
2004	N/A*	N/A*	N/A*	N/A*	N/A*
2003	N/A*	N/A*	N/A*	N/A*	N/A*
2002	N/A*	N/A*	N/A*	N/A*	N/A*
2001	1,769,525	\$ 86,663	4,185,629	\$ 153,218	\$ 15,283,906
2000	1,857,596	88,781	5,081,227	157,146	16,189,047
1999	390,685	26,365	2,521,477	105,343	16,868,047
1998	2,611,032	28,669	6,815,707	42,019	15,053,298
1997	3,423,240	203,431	1,475,622	81,159	13,224,989
1996	2,506,276	217,992	3,246,066	178,534	13,845,331
1995	646,864	51,628	42,541	2,395	N/A*

Source: Puerto Rico Planning Board
 Commissioner of Financial Institutions.

* Information not available.



CPA María Victoria León
Directora de Finanzas

8 de abril de 2005

Castillo 105-1061

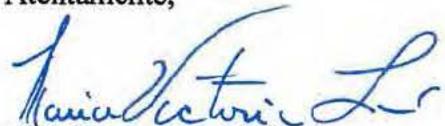
Lcdo. Angel M. Castillo Rodríguez
Comisionado
Oficina del Comisionado de Asuntos
Municipales (OCAM)
PO Box 70167
San Juan, PR 00936-8167

Estimado licenciado Castillo:

Según solicitado, y para cumplir con las disposiciones establecidas, le estamos incluyendo el "Single Audit Report" del Municipio de San Juan.

De necesitar información adicional, se puede comunicar con quien suscribe al 764-5656.

Atentamente,


CPA María Victoria León

Anejos

05 APR 11 PM 1:39
OCAM
DIRECCION GENERAL DE ASUNTOS MUNICIPALES
E INTERMUNICIPAL

MUNICIPALITY OF SAN JUAN, PUERTO RICO

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
GOVERNMENTAL FUNDS
Year ended June 30, 2004**

	General	Debt Service Fund	Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 169,392,475	\$ 44,078,209	\$	\$	\$ 213,470,684
Municipal license tax	119,463,489				119,463,489
Licenses, permits and other local taxes	25,210,288				25,210,288
Charges for services	49,990,273			585	49,990,858
Fines and forfeitures	4,027,319				4,027,319
Interest	2,860,013		32,606	25,025	2,917,644
Intergovernmental:					
Federal	354,980			117,300,212	117,655,192
Local	32,381,890			2,943,542	35,325,432
Other	3,153,198			9,719,645	12,872,843
Total revenues	406,433,925	44,078,209	32,606	129,989,009	580,533,749
EXPENDITURES:					
Current:					
General government	90,463,950		643,873	8,224,286	99,332,109
Public safety	39,977,884			3,293,359	43,271,243
Public works	58,706,316			6,028,729	64,735,045
Culture and recreation	9,528,574			3,003,224	12,531,798
Health and welfare	186,436,489			53,850,401	240,286,890
Urban development	6,898,334			40,784,388	47,682,722
Economic development	13,469,993			16,007,420	29,477,413
Education	6,405,354			3,279,693	9,685,047
Capital outlays	2,732,755		11,210,745	40,661,789	54,605,289
Debt service:					
Principal	15,138,583	24,730,000			39,868,583
Interest and other charges	1,769,833	21,033,137	336,770	93,837	23,233,577
Total expenditures	431,528,065	45,763,137	12,191,388	175,227,126	664,709,716
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(25,094,140)	(1,684,928)	(12,158,782)	(45,238,117)	(84,175,967)
OTHER FINANCING SOURCES (USES):					
Transfer in	10,431,126				10,431,126
Bonds issued				16,610,000	16,610,000
Note payable issued	17,240,000		41,330,000	1,170,000	59,740,000
Lease agreements issued				4,815,463	4,815,463
Transfer out		(10,431,126)			(10,431,126)
Total other financing sources (uses)	27,671,126	(10,431,126)	41,330,000	22,595,463	81,165,463
NET CHANGES IN FUND BALANCES (DEFICIT)	2,576,986	(12,116,054)	29,171,218	(22,642,654)	(3,010,504)
FUND BALANCES (DEFICIT), AT BEGINNING OF YEAR	(28,513,185)	21,022,820	31,017,739	92,313,859	115,841,233
FUND BALANCES (DEFICIT), AT END OF YEAR	\$ (25,936,199)	\$ 8,906,766	\$ 60,188,957	\$ 69,671,205	\$ 112,830,729

See notes to financial statements.