

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE SAN JUAN

AUDITORIA 2006-2007

30 DE JUNIO DE 2007



MUNICIPALITY OF SAN JUAN CAPITAL CITY OF PUERTO RICO

OMB CIRCULAR A-133 AUDIT
For the Fiscal Year Ended June 30, 2007
and Independent Auditors' Report

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Aquino, De Córdova, Alfaro & Co., LLP

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
OMB CIRCULAR A-133 AUDIT
AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Legislature of
Municipality of San Juan,
Capital City of Puerto Rico
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, Capital City of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2007, 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 these financial statements based on our audit. We did not audit the financial statements of the Comunidad del Retiro, which represents three percent and two percent of the assets and revenues of the aggregate remaining fund information, respectively. 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 other auditors.

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

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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Capital City of Puerto Rico, as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 16, and the Budgetary Comparison Schedule – General Fund on page 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis, as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Municipality's management. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards 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 reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

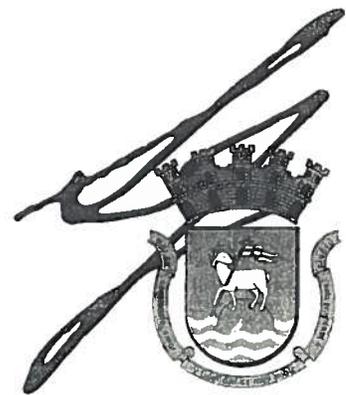
December 7, 2007

Aquino, De Cordova, Alfaro & Co. LLP

Stamp No. 2286735
has been affixed to the
original report



MANAGEMENT'S DISCUSSION & 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 years ended June 30, 2007.

Since the Management's Discussion and Analysis 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's net assets decreased approximately \$121.3 million. The decrease is mainly attributable to the one time pension cost related with the early retirement program.
- ❖ In the fund financial statements, total revenue increased approximately \$85.1 million (or 14.8%) while total expenditures increased approximately \$100.3 million (or 15.7%).
- ❖ The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of deficit of approximately \$1.7 million.
- ❖ On a budgetary basis, the General Fund's actual revenues exceeded actual expenditures by approximately \$32.8 million.
- ❖ The Municipality issued bonds and notes amounting to approximately \$44.9 million to finance an early retirement termination benefit, capital improvements and equipment.

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 required supplementary information (budgetary schedules) and additional 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 source. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

The fund financial statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only 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, governmental fund financial statements focus on near term inflows and outflows of expendable resources, as well as on balances of expendable 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 to 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 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 nonmajor governmental funds are present following the required supplementary information. The total columns of these combining financial statements carry forward to the applicable fund financial statement.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) had not been reported nor depreciated in governmental financial statements. Governmental Accounting Standards Board ("GASB") Statement No. 34 requires that these assets be valued and reported within the governmental column of the government-wide financial statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and 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 statements users in evaluating a local government and its performance over time.

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 Statements of Net Assets (Deficit)				
As of June 30,				
	2007	2006	Change	Pctg.
ASSETS				
Capital assets	\$ 540,291,685	\$ 537,154,907	\$ 3,136,778	0.6%
Other assets	348,839,427	378,472,473	(29,633,046)	-7.8%
Total assets	889,131,112	915,627,380	(26,496,268)	-2.9%
LIABILITIES				
Current liabilities	336,539,991	322,024,378	14,506,613	4.5%
Noncurrent liabilities	667,672,625	587,339,345	80,333,280	13.7%
Total liabilities	1,004,203,616	909,363,723	94,839,893	10.4%
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	191,704,156	222,641,723	(30,937,567)	-13.9%
Restricted for:				
Debt service	9,404,079	10,355,407	(951,328)	-9.2%
Capital projects	81,625,230	86,376,857	(4,751,627)	-5.5%
Unrestricted	(397,805,969)	(313,110,330)	(84,695,639)	27.0%
Total net assets (deficit)	\$ (115,072,504)	\$ 6,263,657	\$ (121,336,161)	-1937.1%

The Municipality's combined assets amounted to \$889.1 million at June 30, 2007, a decrease of \$26.5 million when compared with the prior year. The decrease is the result of: (i) an increase in the allowance for doubtful account of the receivable from CRIM of approximately \$37.7 million due to the inability of CRIM to timely collect property tax and their status on limitations of collections elapsed and (ii) an increase of approximately \$10.5 million in other account receivable related with the sale of capital assets.

The Municipality's combined liabilities amounted to \$1,004 million at June 30, 2007, an increase of \$94.8 million when compared with the prior year. The increase is mainly due to the accrual of the unfunded pension cost of \$101.5 million related with an early retirement program and other required contributions.



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 postclosure 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, among others, 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 represents another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

Changes in Net Assets

The condensed changes in net assets information is presented below:

Condensed Statements of Activities For the Years Ended June 30,				
	2007	2006	Change	Pctg.
Program revenues:				
Charges for services	\$ 77,215,185	\$ 76,990,119	\$ 225,066	0.3%
Operating grants and contributions	108,213,207	118,837,739	(10,624,532)	-8.9%
Capital grants and contributions	1,059,900	1,568,275	(508,375)	-32.4%
General revenues:				
Property taxes	217,512,999	206,394,897	11,118,102	5.4%
Municipal license tax	145,598,624	131,369,460	14,229,364	10.8%
Sales Tax	41,362,113	-	41,362,113	n/a
Grants and contributions not restricted to specific programs	27,077,200	31,433,657	(4,356,457)	-13.9%
Interest income	7,768,600	5,932,657	1,835,943	30.9%
Gain on sale of capital assets	10,740,394	3,858,933	6,881,461	n/a
Other	35,122,419	3,261,171	31,861,248	977.0%
Total revenues	671,670,841	578,646,908	92,023,933	15.9%
Expenses:				
General government	278,120,955	101,103,875	177,017,080	175.1%
Public safety	53,801,241	52,287,545	1,513,696	2.9%
Public works	70,232,876	58,182,628	12,050,250	20.7%
Culture and recreation	18,885,637	19,429,725	(2,544,088)	-13.1%
Health and welfare	242,464,686	255,081,642	(12,616,956)	-4.9%
Urban development	60,012,476	53,542,481	6,470,015	12.1%
Economic development	26,834,239	25,627,780	1,006,459	3.9%
Education	11,244,378	9,384,438	1,859,942	19.8%
Interest on long-term debt	33,610,514	24,116,637	9,493,877	39.4%
Total expenses	793,007,002	598,756,727	194,250,275	32.4%
Change in net assets	(121,336,161)	(19,109,819)	(102,226,342)	534.9%
Net assets, beginning of year	6,263,657	25,373,476	(19,109,819)	-75.3%
Net assets (deficit), end of year	\$ (115,072,504)	\$ 6,263,657	\$ (121,336,161)	-1937.1%

The Municipality's total revenues increased by approximately \$92.0 million. Approximately 60.3 percent (58.3 percent in 2006) of the Municipality's total revenue came from taxes, while approximately 20.3 percent (26.2 percent in 2006) resulted from grants and contributions, including federal aid. Charges for Services provided approximately 11.5 percent (13.3 percent in 2006) of the total revenues.

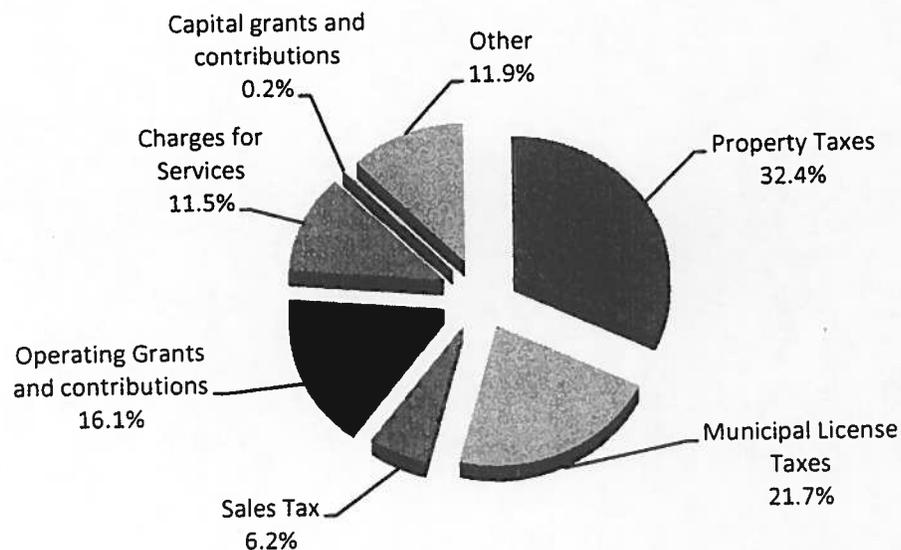


Revenues from property and municipal license taxes increased by approximately 7.5 percent due to the effectiveness reached during 2007 over the property tax and municipal license tax assessments and collections efforts. This effectiveness was the direct result of the creation of the Special Structure and Population Task Force which allowed the Municipality to aggressively pursue delinquent taxpayers. Sales tax collections totaled \$41.4 million which represented 6.2 percent of total revenues.

Charges for services decreased by approximately 0.3 percent when compared with prior fiscal year mainly due to a decrease in health care service revenues. Gains on sale of capital assets of approximately \$10.7 million are directly related to the sale of land as part of a program to redevelop certain clusters in San Juan.

The following chart summarizes the Municipality's revenues by sources for the governmental activities for the fiscal year ended June 30, 2007.

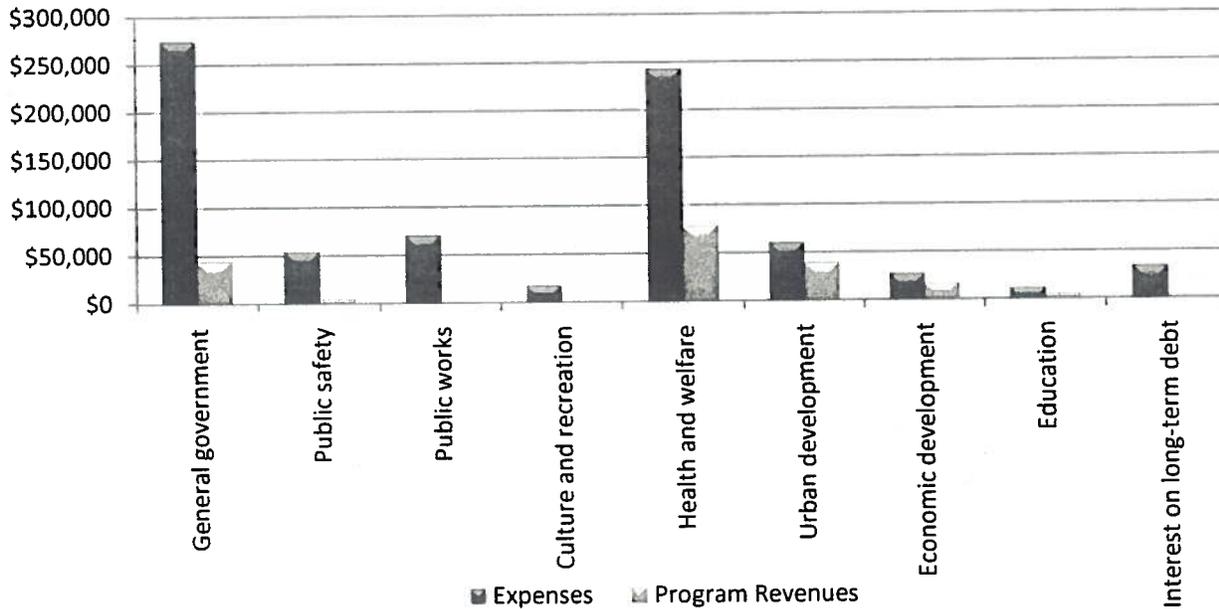
Revenues by Source-Governmental Activities



The Municipality's total expenses amounted to \$793.0 million and \$598.8 million for the year ended June 30, 2007 and 2006, respectively. Increase in total expenses was mainly due to the pension cost of the early retirement plan and other required contributions of approximately \$128.5 million and the bad debt expense for uncollectible accounts from CRIM of \$37.7 million.

The following chart summarizes the Municipality's program revenues compared to program expenses for the governmental activities for the fiscal year ended June 30, 2007.

**Expenses and Program Revenues-Governmental Activities
(In thousands)**



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$78.7 million, a decrease of \$21.2 million in comparison with the prior year. There are reservations of fund balance amounting to \$140.1 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 (\$24.2 million), 2) to pay debt service (\$9.4 million), 3) to pay for capital projects (\$81.6 million), 4) for inventories not yet consumed (\$3.9 million) or 5) Intergovernmental (\$21.0 million). Accordingly, since there is an excess of reservations over the total fund balance there exists a deficiency in the unreserved balance of \$61.4 million in the governmental funds.

Within the governmental funds, it is included the general fund, which is the main operating fund of the Municipality. As of June 30, 2007 and 2006, the general fund has a deficit of \$30.0 million and \$31.8 million, respectively. Key factors in the decrease of the deficit are as follows:

- ❖ Increase of \$72.8 million in total revenues.
- ❖ Increase of \$83.6 million in total expenditures.
- ❖ Operating transfer of \$13.9 million from the debt service fund
- ❖ Other financing sources amounting \$33.3 million

Increase of \$72.8 million in total revenues was mainly due to an increase of approximately \$14.2 million, 5.7 million and \$21.0 million in municipal license taxes, licenses, permits and other local taxes and other revenues, respectively; and a decrease of \$6.6 million in charge for services. In addition, the new sales tax revenue amounted for \$41.4 million for the year.

The Municipality moved aggressively to improve the collection efforts for municipal license taxes, license, permits and other local taxes due to a strategic plan to reduce tax evasion, better equipment and personnel training. Also, the new sales and usage tax became effective on August 1, 2006 and consists of one percent (1%) on the sale price of a taxable item.

Decrease in charges for services was related with erosion in hospital admission during the year and losses on the participants by changes to Medicare advantage covers at nationwide.

The increase of \$83.6 million in expenditure was mainly due to the annual pension cost for the first year of the early retirement program of \$27 million, the bad debt expenditure related with receivable from CRIM of \$37.7 million, and other expenditures related with special programs such as materials, equipments, payroll and professional services in all governmental activities.

The operating transfer of \$13.9 million from the debt service fund to the general fund is the result of Act No. 64 of July 3, 1996, as amended, which allows municipalities that have excess funds to repay general obligations bonds to transfer such excess to the general fund for operating purposes.

Other financing sources amounting to \$33.3 million result from the proceeds of \$22.6 million of long-term debt issued and \$10.7 million from the sale of capital assets.

Governmental funds also include the debt service fund and loan guarantee fund. The fund balance of the debt service fund as of June 30, 2007 and 2006 amounted to \$9.4 million and \$10.4 million, respectively. The change in the debt service fund balance is the result of the above mentioned transfer to the general fund for operating purposes. The fund balance of the loan guarantee fund as of June 30, 2007 and 2006 amounted to \$18.9 million and \$30.7 million, respectively. The change in the loan guarantee fund balance is the direct result of the capital outlays made during the year.

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.

During the year, there was an increase of approximately \$47.8 million in appropriations between the original and final amended budget. The main component of the increase was to the Health Department for the expansion of drugs and medicines program, the increase on wages to nurse personnel and the expansion of other medical related services. The increase was possible because of additional anticipated revenues. Those revenues included the proceeds from sales tax and municipal license tax.

As a result of the tighter control imposed by the Municipality's managements, there was an excess of revenues over expenditures on the budget of approximately \$32.8 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2007 and 2006 amounted to approximately \$540.3 million and \$537.2 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings, sites, improvements, equipment, intangibles, infrastructure, works of art, vehicles and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the Municipality, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

	2007	2006	Change	Pctg.
Land	\$ 54,797	\$ 54,388	\$ 409	0.8%
Works of art	2,224	2,224	-	0.0%
Buildings and building improvements	215,464	200,991	14,473	7.2%
Site improvements	81,770	89,837	(8,067)	-9.0%
Infrastructure	114,122	66,464	47,658	71.7%
Equipment and vehicles	7,009	9,839	(2,830)	-28.8%
Intangible	1,147	1,530	(383)	-25.0%
Construction in progress	63,759	111,882	(48,123)	-43.0%
Total	\$ 540,292	\$ 537,155	\$ 3,137	0.6%

The slight increase in the Municipality's investment in capital assets was 0.6% percent over last year. Actual expenditures to purchase or construct capital assets for the years ended June 30, 2007 and 2006 were \$34.8 million and \$32.2 million, respectively. Depreciation charges amounted to \$30.3 million and \$29.3 million for the years ended June 30, 2007 and 2006, 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 its entirety for such purposes and cannot be used for any other purpose. As of June 30, 2007 and 2006, the Municipality has approximately \$81.6 million and \$86.4 million, respectively, of unexpended proceeds from bond issuances that are committed to future construction activities. Additional details regarding the Municipality's capital assets can be found in Note 6 to the financial statements.



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.

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 \$4.2 billion, the legal margin of San Juan as of June 30, 2007, was \$423.1 million. The Municipality's available legal margin as of June 30, 2007, was calculated by GDB to equal \$47.7 million after subtracting from the legal margin the amount of \$384.8 million in outstanding general obligation debt as of June 30, 2007, and adding to the legal margin the amount in its Redemption Fund of \$9.4 million as of June 30, 2007.

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 rating assigned is BBB-/A3, by Standard & Poor's Investor Services.

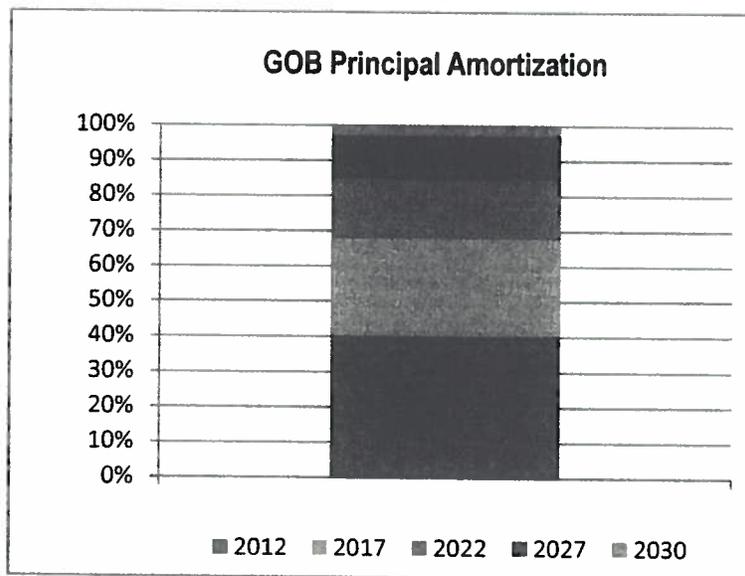
The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal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

During fiscal year 2007, the Municipality issued bonds amounting to \$22.4 million to provide for the construction and equipment needs of the Municipality and a special obligation bond amounting to \$22.6 million to finance the current portion of an early retirement termination benefit. At June 30, 2007, the Municipality had \$384.8 million of general obligation bonds outstanding.

The following chart indicates the principal amortization of the Municipality's general obligation bonds in five-year increments.

Fiscal Years	Principal Amortization
2008-2012	\$ 154,657,000
2013-2017	106,393,000
2018-2022	65,208,000
2023-2027	48,230,000
2028-2030	10,306,000
Total	\$384,794,000

As can be seen in the chart below, approximately 85% of the Municipality's outstanding general obligation bonds will be retired within the next fifteen (15) years.



Additional details regarding the Municipality's long-term debt can be found in Note 10 to the financial statements.



ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

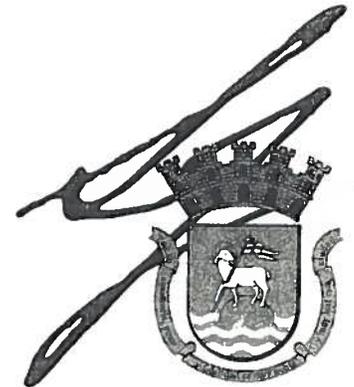
The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable. On August 2006 became effective an approved legislation to impose and collect a sales and usage tax on retail and services within the territorial limits of San Juan. These factors were considered when preparing the Municipality's budget for the 2007-2008 fiscal year.

During June 2007, the Commonwealth of Puerto Rico approved an amendment to the Internal Code Revenue to impose and collect an increase on sales and usage tax on behalf of the Municipality that will become effective in 2007-2008 fiscal year. It is intended that the use of these revenue will avoid the need of additional resources for working capital purposes. Since this factor become effective after the approval of the Municipality's budget and will be present for the first time in 2007-2008 fiscal year, they were not considered when preparing the Municipality's budget for the same period.

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 accounting. If you have questions about the report or need additional financial information, contact the Municipality's Finance Director on the 5th floor of the Municipal Tower, 160 Chardón Avenue, San Juan, Puerto Rico 00919 or visit our website at www.sanjuancapital.com.

BASIC FINANCIAL STATEMENTS



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**Governmental
Activities**

Assets

Cash and cash equivalents	\$ 116,978,807
Cash with fiscal agent	119,532,004
Accounts receivable:	
Municipal license tax	4,000,000
Sales tax	3,010,238
Intergovernmental	73,782,947
Other	22,206,710
Inventories	3,862,921
Deferred charges	2,016,873
Restricted assets - Cash and cash equivalents	3,448,927
Capital assets not being depreciated	120,779,681
Capital assets being depreciated, net	419,512,004
	<hr/>
Total assets	889,131,112
	<hr/>

Liabilities

Accounts payable and accrued liabilities	95,983,108
Deferred revenues:	
Municipal license tax	127,381,040
Federal grant revenues	5,844,904
Matured bonds and interest payable	38,938,428
Noncurrent liabilities:	
Due within one year	68,383,511
Due in more than one year	667,672,625
	<hr/>
Total liabilities	1,004,203,616
	<hr/>

Net Assets (Deficit)

Invested in capital assets, net of related debt	191,704,156
Restricted for:	
Debt service	9,404,079
Capital projects	81,625,230
Unrestricted	(397,805,969)
	<hr/>
Total net assets (deficit)	\$ (115,072,504)
	<hr/>

The notes to the financial statements are an integral part of this statement.



Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$278,120,955	\$35,117,139	\$ 8,231,958	\$ 1,059,900	\$(233,711,958)
Public safety	53,801,241	217,536	3,874,250	-	(49,709,455)
Public works	70,232,876	-	-	-	(70,232,876)
Culture and recreation	16,885,637	398,979	12,968	-	(16,473,690)
Health and welfare	242,464,686	33,381,497	44,423,782	-	(164,659,407)
Urban development	60,012,476	2,056,676	36,670,374	-	(21,285,426)
Economic development	26,634,239	4,133,614	12,632,734	-	(9,867,891)
Education	11,244,378	1,909,744	2,367,141	-	(6,967,493)
Interest on long-term debt	33,610,514	-	-	-	(33,610,514)
Total governmental activities	\$793,007,002	\$77,215,185	\$108,213,207	\$ 1,059,900	(606,518,710)

General revenues:

Property taxes	217,512,999
Municipal license tax	145,598,824
Sales tax	41,362,113
Grants and contributions not restricted to specific programs	27,077,200
Interest income	7,768,600
Gain on sale of capital assets	10,740,394
Other	35,122,419
Total general revenues	485,166,549
Change in net assets	(121,336,161)
Net assets at beginning of year	6,263,657
Net assets (deficit) at end of year	\$ (115,072,504)

The notes to the financial statements are an integral part of this statement.

	General	Debt Service Fund	Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 36,700,346	\$ -	\$ 24,990,784	\$ 55,287,677	\$ 116,978,807
Cash with fiscal agent	3,824,051	49,962,286	-	65,745,667	119,532,004
Accounts receivable					
Municipal license tax	4,000,000	-	-	-	4,000,000
Sales tax	3,010,238	-	-	-	3,010,238
Intergovernmental	51,505,886	5,724,887	-	16,552,174	73,782,947
Other	22,044,340	-	-	162,370	22,206,710
Due from other funds	47,874,273	-	23,184	2,902,960	50,800,417
Inventories	1,874,560	-	-	1,988,361	3,862,921
Restricted assets - cash and cash equivalents	-	-	-	3,448,927	3,448,927
Total assets	<u>\$ 170,833,694</u>	<u>\$ 55,687,173</u>	<u>\$ 25,013,968</u>	<u>\$ 146,088,136</u>	<u>\$ 397,622,971</u>
LIABILITIES AND FUND BALANCES (DEFICIT)					
Liabilities:					
Accounts payable and accrued liabilities	\$ 73,484,011	\$ -	\$ 6,069,471	\$ 16,429,626	\$ 95,983,108
Due to other funds	-	7,344,666	-	43,455,751	50,800,417
Matured bonds and interest payable	-	38,938,428	-	-	38,938,428
Deferred revenues					
Municipal license tax	127,381,040	-	-	-	127,381,040
Federal grant revenues	-	-	-	5,844,904	5,844,904
Total liabilities	<u>200,865,051</u>	<u>46,283,094</u>	<u>6,069,471</u>	<u>65,730,281</u>	<u>318,947,897</u>
Fund balances (deficit)					
Reserved for:					
Intergovernmental	21,000,000	-	-	-	21,000,000
Inventories	1,874,560	-	-	1,988,361	3,862,921
Debt service	-	9,404,079	-	-	9,404,079
Capital projects	-	-	-	81,625,230	81,625,230
Encumbrances	24,243,844	-	-	-	24,243,844
Unreserved:					
General fund	(77,149,761)	-	-	-	(77,149,761)
Special revenue funds	-	-	18,944,497	(3,255,736)	15,688,761
Total fund balances (deficit)	<u>(30,031,357)</u>	<u>9,404,079</u>	<u>18,944,497</u>	<u>80,357,855</u>	<u>78,675,074</u>
Total liabilities and fund balances (deficit)	<u>\$ 170,833,694</u>	<u>\$ 55,687,173</u>	<u>\$ 25,013,968</u>	<u>\$ 146,088,136</u>	<u>\$ 397,622,971</u>

The notes to the financial statements are an integral part of this statement.



Total Governmental Fund Balances \$ 78,675,074

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.

Land	\$ 54,796,615	
Building and site improvements, net of depreciation	297,233,792	
Infrastructure, net of depreciation	114,122,043	
Equipment and vehicles, net of depreciation	7,008,544	
Works of art and intangible assets, net of depreciation	3,371,990	
Construction in progress	<u>63,758,701</u>	
Total		540,291,685

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds 2,016,873

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	(384,794,000)	
Mortgage payable	(5,041,888)	
Notes payable	(150,843,614)	
Advances from CRIM	(31,950,335)	
Obligations under capital leases	(1,800,407)	
Compensated absences	(30,282,658)	
Net pension obligation	(101,543,234)	
Claims and judgments	(5,500,000)	
Landfill obligation	(20,700,000)	
Other liabilities	<u>(3,600,000)</u>	
Total		<u>(736,056,136)</u>

Total net assets (deficit) of governmental activities \$ (115,072,504)

The notes to the financial statements are an integral part of this statement.

	General	Debt Service Fund	Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$155,896,643	\$61,616,356	\$ -	\$ -	\$ 217,512,999
Municipal license tax	145,598,824	-	-	-	145,598,824
Sales tax	41,362,113	-	-	-	41,362,113
Licenses, permits and other local taxes	29,629,779	-	-	-	29,629,779
Charges for services	40,261,671	-	-	2,312,461	42,574,132
Fines and forfeitures	5,011,274	-	-	-	5,011,274
Interest	7,285,630	-	-	482,970	7,768,600
Intergovernmental					
Federal	-	-	-	107,604,674	107,604,674
Local	27,077,200	-	-	1,668,432	28,745,632
Other	24,277,935	-	-	10,844,484	35,122,419
Total revenues	476,401,069	61,616,356	-	122,913,021	660,930,446
EXPENDITURES:					
Current					
General government	161,316,013	-	-	9,273,707	170,589,720
Public safety	47,168,165	-	-	5,338,672	52,506,837
Public works	64,911,648	-	-	2,645,274	67,556,922
Culture and recreation	9,820,419	-	-	1,626,174	11,446,593
Health and welfare	188,570,684	-	-	50,510,695	239,081,379
Urban development	9,207,745	-	-	45,800,813	55,008,558
Economic development	10,788,977	-	-	10,952,325	21,741,302
Education	7,050,112	-	-	4,055,646	11,105,758
Capital outlays	4,137,584	-	11,762,737	18,882,889	34,783,210
Debt service:					
Principal	10,235,117	27,222,000	-	2,927,816	40,384,933
Interest and other charges	8,648,274	21,471,541	-	3,490,699	33,610,514
Total expenditures	521,854,738	48,693,541	11,762,737	155,504,710	737,815,726
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(45,453,669)	12,922,815	(11,762,737)	(32,591,689)	(76,885,280)
OTHER FINANCING SOURCES (USES):					
Transfer in	13,874,143	-	-	-	13,874,143
Bonds issued	22,581,000	-	-	22,360,000	44,941,000
Sale of capital assets	10,740,395	-	-	-	10,740,395
Transfer out	-	(13,874,143)	-	-	(13,874,143)
Total other financing sources (uses)	47,195,538	(13,874,143)	-	22,360,000	55,681,395
NET CHANGE IN FUND BALANCES (DEFICIT)	1,741,869	(951,328)	(11,762,737)	(10,231,689)	(21,203,885)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	(31,773,226)	10,355,407	30,707,234	90,589,544	99,878,959
FUND BALANCES (DEFICIT), END OF YEAR	\$(30,031,357)	\$ 9,404,079	\$18,944,497	\$ 80,357,855	\$ 78,675,074

The notes to the financial statements are an integral part of this statement.



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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June-30, 2007

Net change in fund balances (deficit) - total governmental funds \$ (21,203,885)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	\$ 34,783,210	
Current year depreciation	<u>(30,334,487)</u>	4,448,723

The net effect of various transactions involving capital assets (1,311,945)

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.

Bond, note and capital lease proceeds	(44,941,000)	
Bond issue costs	184,749	
Principal repayments	<u>40,384,933</u>	(4,371,318)

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.

Change in net pension obligation		(101,543,234)
Amortization of deferred charges		(178,466)
Change in compensated absences accrual		7,923,964
Change in landfill obligation		(1,500,000)
Change in other liabilities		<u>(3,600,000)</u>
Change in net assets of governmental activities		<u>\$ (121,336,161)</u>

The notes to the financial statements are an integral part of this statement.

1. Organization and Reporting Entity

The Municipality of San Juan (the "Municipality") was founded in 1521 and is the largest municipality and the Capital City of the Commonwealth of Puerto Rico. The Municipality's governmental system consists of executive and legislature bodies. The Municipality is governed by a Mayor and a seventeen-member Municipal Legislature who are elected for a four-year term.

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

A. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all fund, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality is financially accountable for an organization if the Major or the Municipal Legislature appoints a voting majority of the organization's governing board; and (1) the Municipality is able to significantly influence the programs or services performed or provided by the organization; or (2) the Municipality is legally entitled to or can otherwise access the organization's resources; the Municipality is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Municipality is obligated for the debt of the organizations. Component units may also include organizations for which the Municipality authorizes the issuance of debt or the levying of taxes, or determines the budget. Based upon the application of these criteria, there are not component units as part of this report.

2. Summary of Significant Accounting Policies

The basic financial statements of the Municipality have been prepared in conformity with generally accepted accounting principles as applied to local governmental units in the United States of America (USGAAP). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Municipality's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

A. 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 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 activity has 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, charges for services and other.

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. Principal 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.

The other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose. The Comunidad de Retiro Fund is included as part of other governmental funds and accounts for the financial position and operation of Comunidad de Retiro (the "Project"). The Municipality formed the Project 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 Urban Development as to rent charges and operating methods. Legal title of the Project is held by the Municipality. Separate financial statements of this individual fund can be obtained from the Project's administrative office:

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

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.

B. 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 local statutes.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for and the payment of long-term general obligation bonds 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.

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

Except for budgetary purposes, the basis of accounting used by the Municipality conforms with USGAAP as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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 are all considered susceptible to accrual if commonly collected within 60 days following the end of the fiscal period, unless unusual circumstances justify a greater period. The Municipality understands that the unusual criteria was met through an Agreement reached with CRIM, whereas the Municipality assumes responsibility over the property tax assessment and collections, including the foreclosure process of delinquent accounts, previously done exclusively by CRIM. This agreement justifies the extension of the collection period for revenue recognition purposes from 60 to 360 days following June 30, 2007 as defined in NCGA Interpretation 3.

Other taxes, charges, 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.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. 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 Municipality's policy to use restricted resources first, then unrestricted resources, as they are needed.

The preparation of financial statements in conformity with USGAAP 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.

D. Assets, liabilities and net assets

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

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 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.

Restricted cash and cash equivalents in other governmental funds represents mortgage escrow deposits, reserve for replacement and residual receipts deposited with the mortgagee.

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, and are shown net of an allowance for uncollectible. Intergovernmental receivables in the general fund represent mostly property tax accounts that are levied by CRIM and contributions from the Puerto Rico Electric Power Authority ("PREPA") 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 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. 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 value to the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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
Intangible assets	10
Vehicles	5
Equipment	3 to 5

Intangible assets at June 30, 2007, consist primarily of computer software.

5. *Long-term obligations:*

The liabilities reported in the government-wide financial statements include the general and special obligation bonds, 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 in the government-wide financial statements 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 work. All vacation pay and salary related benefits are 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. All sick leave pay and salary related benefits are accrued when incurred in the government-wide financial statements when the employee meets such criteria.

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 when the liability is incurred.



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:

- a. *Intergovernmental and Inventories* - 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* - Represent the reservation of amounts to be used for future expenditures of 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.

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. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the CRIM for the year ended June 30, 2007 amounted to approximately \$9.4 million. The current insurance policies have not been cancelled or terminated. CRIM also deducted approximately \$8.4 million for workers compensation insurance covering all municipal employees for the year ended June 30, 2007.

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 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.

12. *Future adoption of accounting pronouncements:*

The GASB has issued the following statements that have effective dates after June 30, 2007:

- a. GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for periods beginning after December 15, 2006.

- b. GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Other Than Pension Plans*, which is effective for periods beginning after December 15, 2007.
- c. GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which is effective for periods beginning after December 15, 2007.
- d. GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for periods beginning after December 15, 2007.
- e. GASB Statement No. 50, *Pension Disclosures*, which is effective for periods beginning after June 15, 2007.
- f. GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for periods beginning after June 15, 2009.

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

3. Deposits

Under Commonwealth of 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 has no policy regarding custodial credit risk for deposits.

The Municipality's bank balances in commercial banks of approximately \$59.3 million, \$25.0 million and \$29.4 million in the general fund, the loan guarantee and other governmental funds, respectively, were fully collateralized at June 30, 2007.

Other governmental funds' deposits with GDB at June 30, 2007 amounted to approximately \$98.1 million of which \$96.2 million are reserved principally for capital projects, and the \$50.0 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks. Also, other deposits at GDB in the general fund at June 30, 2007 of approximately \$3.8 million are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

4. 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 Industrial Incentives Acts 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, 2007, the tax rates were as follows:

- Financial business - 1.50% of gross revenues
- Other organizations - 0.20% for annual revenues up to \$1,000,000, and 0.50% over such volume.



This tax is due in two equal installments on July 15 and January 15 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, 2007. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

B. Sales Tax

The Municipality imposes a sales and usage within the territorial limits of the Municipality. This tax consists of one percent (1%) on the sale price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. It is a self-assessed tax and collected monthly in a tax return that is due twenty calendar days after the end of each month.

Sale tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2007, but pertaining to current year period.

C. Intergovernmental Receivables

Intergovernmental receivables in the general fund consist of the amount due from CRIM and the amount due from PREPA. The amount due from CRIM represents the estimated amount of real and personal property taxes levied but not yet collected by the CRIM on behalf the Municipality. 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 amounts receivable from other governmental entities are as follows:

	Amount
Due from CRIM, net of allowance for doubtful accounts of \$37,721,803	\$ 27,800,000
Due from PREPA	22,799,271
Due from federal and local governments	<u>906,615</u>
Total intergovernmental receivables	<u>\$ 51,505,886</u>

Amount presented in the debt service fund represents the special ad valorem tax restricted for debt service collected by the CRIM on behalf of the Municipality during 2007.

Intergovernmental receivables in other governmental funds represent principally expenditures incurred through the assignment of federal grants or awards not yet reimbursed by the federal and local governments. Following is a detail of the intergovernmental receivable:

Description	Amount
HIV Emergency Relief Formula Grant	\$ 4,992,178
Community Services Block Grant	3,202,382
Community Development Block Grant	1,679,992
Workforce Investment Act	1,521,991
Housing Opportunities for Persons with AIDS	597,034
Homeland Security	592,448
Project Safe Neighborhoods	585,748
Special Program for Aging – Title III	465,340
Risk Reduction	424,195
Supportive Housing Program	298,276
Home Investment Homeownership	256,487
Childhood Immunization Grant	250,300
State Federal Justice	248,467
Section 8 Moderate Rehabilitation	238,582
Emergency Shelter Grants	193,256
Health Center Grants for Homeless Population	108,479
Gang Resistance Education & Training	104,665
Others	792,354
Total	<u>\$ 16,552,174</u>

D. Other

Other accounts receivable as of June 30, 2007, net of allowance for doubtful account of \$1,184,621, are as follows:

	General Fund	Other Governmental Funds	Total
Land developers	\$ 10,445,000	\$ -	\$ 10,445,000
Medical Plans	4,600,000	-	4,600,000
Construction permits	4,639,946	-	4,639,946
Interests	402,142	-	402,142
Rent	367,388	-	367,388
Other	1,589,864	162,370	1,752,234
Total other receivables	<u>\$ 22,044,340</u>	<u>\$ 162,370</u>	<u>\$ 22,206,710</u>



5. Interfund Transactions

Interfund receivables and payables at June 30, 2007 are summarized as follows:

A. Due from/to other fund

Receivable Fund	Payable Fund			Total
	Debt Service Fund	Loan Guarantee Fund	Other Governmental Funds	
General	\$ 7,344,666	\$ -	\$ 40,529,607	\$ 47,874,273
Loan Guarantee	-	-	23,184	23,184
Other Governmental	-	-	2,902,960	2,902,960
Total	<u>\$ 7,344,666</u>	<u>\$ -</u>	<u>\$ 43,455,751</u>	<u>\$ 50,800,417</u>

1. *Debt Service Fund:*

Act. No. 64 of 1996, as amended, authorized municipalities to withdraw the excess of ad valorem taxes over the actual debt service requirement. As of June 30 2007, there were approximately \$7.3 million of such excess as due from other funds in the general fund.

2. *Loan Guarantee and Other Governmental Funds:*

The Municipality handles all disbursements through the general fund bank accounts, except for certain disbursements of other governmental funds which are handled through GDB bank accounts. Accordingly, the outstanding balances between funds resulted mainly from the time lag between the dates that (1) interfund goods and service are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

B. Transfer in (out)

Act. No. 64 of 1996, as amended, authorized municipalities to withdraw the excess of ad valorem taxes over the actual debt service requirement. During June 2007 approximately \$13.9 million was withdrawn and transferred to the general fund for working capital purposes.

6. Capital Assets

Capital assets are primarily funded through the issuance of long-term bonds and notes. Capital assets activity for the year ended June 30, 2007 was as follows:

Governmental Activities:	Balance July 1, 2006	Reclassifications	Additions	Retirements	Balance June 30, 2007
Capital asset, not being depreciated:					
Land	\$ 54,388,487	\$ 408,129	\$ -	\$ (1)	\$ 54,796,615
Works of art	2,224,365	-	-	-	2,224,365
Construction in progress	111,881,592	(79,400,732)	31,277,841	-	63,758,701
Total capital assets not being depreciated	168,494,444	(78,992,603)	31,277,841	(1)	120,779,681
Capital assets, being depreciated:					
Buildings and building improvements	300,956,777	27,166,545	585,677	-	328,708,999
Site improvements	149,009,031	-	-	-	149,009,031
Infrastructure	100,143,343	51,826,058	147,313	-	152,116,714
Equipment and vehicles	76,729,163	-	2,772,379	(1,519,998)	77,981,544
Intangible	3,825,426	-	-	-	3,825,426
Total capital assets being depreciated	630,663,740	78,992,603	3,505,369	(1,519,998)	711,641,714
Less accumulated depreciation for:					
Buildings and building improvements	(99,966,174)	-	(13,278,589)	-	(113,244,763)
Site improvements	(59,171,904)	-	(8,067,571)	-	(67,239,475)
Infrastructure	(33,679,003)	-	(4,315,668)	-	(37,994,671)
Equipment and vehicles	(66,890,938)	-	(4,290,116)	208,054	(70,973,000)
Intangible	(2,295,258)	-	(382,543)	-	(2,677,801)
Total accumulated depreciation	(262,003,277)	-	(30,334,487)	208,054	(292,129,710)
Total capital assets being depreciated, net	368,660,463	78,992,603	(26,829,118)	(1,311,944)	419,512,004
Governmental activities capital assets, net	\$ 537,154,907	\$ -	\$ 4,448,723	\$ (1,311,945)	\$ 540,291,685



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

Governmental activities:	Amount
General government	\$ 3,344,227
Public safety	1,646,583
Public works	2,170,673
Culture and recreation	6,399,008
Health and welfare	5,864,282
Urban development	5,391,871
Economic development	5,099,129
Education	418,714
Total depreciation expense – governmental activities	<u>\$ 30,334,487</u>

7. 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 Commonwealth of Puerto Rico. 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 borrowing from CRIM is recorded at June 30. The difference between the advances and the final settlement from CRIM for fiscal year 2007 resulted in a receivable of approximately \$2.0 million.

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 Law No. 83 of August 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 2007 is 9.03% for real property and 7.03% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represents the Municipality's basic

property tax rate, 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) 2.00% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund.

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2007 are summarized as follows:

	General Fund	Debt Service Fund	Loan Guarantee Fund	Other Governmental Funds	Total
Accounts payable	\$ 69,283,367	\$ -	\$ 6,069,471	\$ 16,429,626	\$ 91,782,464
Accrued liabilities	4,200,644	-	-	-	4,200,644
Total	\$ 73,484,011	\$ -	\$ 6,069,471	\$ 16,429,626	\$ 95,983,108

9. Deferred Revenues

A. Municipal License Tax

The deferred revenues of approximately \$127.4 million in the general fund at June 30, 2007 relates to municipal license tax collected in fiscal year 2007 that will be earned in fiscal year 2008.

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	\$1,935,407
Head Start	1,444,606
Cancer Investigation	566,302
Public Safety Partnership & Community Policing Grant	499,825
Law Enforcement Block Grant	489,792
Department of Treasury Equitable Sharing	259,364
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	122,742
Maternal Child and Health Services Block Grant	122,337
Others	404,529
Total	\$5,844,904



10. Long-Term Debt

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 367,075,000	\$44,941,000	\$ (27,222,000)	\$ 384,794,000	\$29,067,000
Mortgage payable	5,284,704	-	(242,816)	5,041,888	264,279
Notes payable	156,447,677	-	(5,604,063)	150,843,614	5,918,007
Borrowings from CRIM	38,050,869	-	(6,100,534)	31,950,335	6,814,280
Obligations under capital leases	3,015,927	-	(1,215,520)	1,800,407	1,143,394
Compensated absences	38,206,622	1,126,212	(9,050,176)	30,282,658	2,500,000
Net pension obligation	-	128,543,234	(27,000,000)	101,543,234	20,776,551
Claims and judgments	5,500,000	-	-	5,500,000	1,000,000
Landfill obligation	19,200,000	2,400,000	(900,000)	20,700,000	900,000
Other liabilities	-	3,600,000	-	3,600,000	-
Total	\$ 632,780,799	\$ 180,610,446	\$ (77,335,109)	\$ 736,056,136	\$ 68,383,511

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 special 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, 2007 amounted to approximately \$4.2 billion. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

B. Bonds Payable

The Municipality issues general obligation bonds mainly to provide funds for the acquisition and construction of major capital facilities. During fiscal year 2007, the Municipality issued bonds for approximately \$44.9 million. Bonds payable outstanding at June 30, 2007 are as follows:

Description	Outstanding Amount
2007 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$13.8 million due in annual installments of \$320,000 to \$1,260,000, through July 1, 2026; with interest ranging from 6.50% to 7.50%	\$ 13,475,000
2007 general obligation bonds for the first payment of the early retirement termination benefit with an original amount of \$22.6 million due in annual installments of \$357,000 to \$1,812,000, through July 1, 2031; with interest ranging from 6.60% to 7.00%	22,224,000
2007 general obligation bonds for the acquisition of various capital assets with an original amount of \$1.6 million due in annual installments of \$270,000 to \$365,000, through July 1, 2011; with interest ranging from 6.80% to 7.50%	1,310,000

Description	Outstanding Amount
2006 general obligation bonds for the acquisition of various capital assets with an original amount of \$7.0 million due in annual installments of \$1,215,000 to \$1,590,000, through July 1, 2011; with interest ranging from 7.00% to 7.50%	5,770,000
2005 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$18.6 million due in annual installments of \$480,000 to \$1,585,000, through July 1, 2025; with interest ranging from 4.23% to 5.31%	17,630,000
2005 general obligation bonds for the acquisition of various capital assets with an original amount of \$6.0 million due in annual installments of \$720,000 to \$1,020,000, through July 1, 2012; with interest ranging from 4.23% to 4.73%	4,555,000
2004 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$18.9 million due in annual installments of \$570,000 to \$1,450,000, through July 1, 2024; with interest ranging from 4.17% to 5.28%	17,145,000
2004 serial bonds for the acquisition of various capital assets with an original amount of \$2.0 million due in annual installments of \$365,000 to \$445,000, through July 1, 2009; with interest ranging from 4.17% to 4.38%	865,000
2004 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$10.1 million due in annual installments of \$500,000 to \$870,000, through July 1, 2019; with interest ranging from 3.28% to 4.80%	8,485,000
2004 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$22.2 million due in annual installments of \$815,000 to \$1,130,000, through July 1, 2027; with interest ranging from 2.76% to 5.31%	19,700,000
2003 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$12.8 million due in annual installments of \$415,000 to \$620,000, through July 1, 2028; with interest ranging from 1.61% to 4.00%	11,115,000
2003 general obligation bonds for the acquisition of various capital assets with an original amount of \$3.8 million due in annual installments of \$515,000 to \$565,000, through July 1, 2010; with interest ranging from 1.61% to 4.00%	1,670,000
2001 serial bonds for the construction and improvements of various capital assets with an original amount of \$55.6 million due in annual installments of \$760,000 to \$4,825,000, through July 1, 2026; with interest ranging from 2.70% to 5.60%	49,995,000



Description	Outstanding Amount
2001 serial bonds for the acquisition of various capital assets with an original amount of \$10.2 million due in annual installments of \$475,000 to \$1,195,000, through July 1, 2013; with interest ranging from 2.70% to 6.13%	5,950,000
2000 serial bonds for the construction and improvements of various capital with an original amount of \$25.4 million due in annual installments of \$970,000 to \$2,680,000, through July 1, 2015; with interest ranging from 2.70% to 7.81%	16,835,000
1999 general obligations bonds for the construction and improvements of various capital assets with an original amount of \$65.0 million due in annual installments of \$1,740,000 to \$5,885,000, through July 1, 2018; with interest ranging from 4.87% to 6.46%	47,195,000
1999 serial bonds for the construction and improvements of various capital assets with an original amount of \$70.7 million due in annual installments of \$2,810,000 to \$7,255,000, through July 1, 2013; with interest ranging from 4.87% to 6.11%	36,990,000
1999 general obligations bonds for the construction and improvements of various capital assets with an original amount of \$67.3 million due in annual installments of \$1,980,000 to \$6,260,000, through July 1, 2016; with interest ranging from 4.87% to 6.34%	43,610,000
1998 serial bonds for the construction and improvements of various capital assets with an original amount of \$51.4 million due in annual installments of \$1,190,000 to \$4,695,000, through July 1, 2017; with interest ranging from 4.87% to 6.71%	34,635,000
1998 general obligations bonds for the construction and improvements of various capital assets with an original amount of \$18.3 million due in annual installments of \$350,000 to \$1,605,000, through July 1, 2019; with interest ranging from 4.87% to 6.71%	13,310,000
1996 serial bonds for the construction and improvements of various capital assets with an original amount of \$27.0 million due in annual installments of \$885,000 to \$2,830,000, through July 1, 2011; with interest ranging from 4.70% to 6.63%	10,120,000
1996 general obligations bonds for the construction and improvements of various capital assets with an original amount of \$10.2 million due in annual installments of \$420,000 to \$1,150,000, through July 1, 2009; with interest ranging from 4.87% to 6.75%	<u>2,210,000</u>
Total	<u>\$384,794,000</u>

These bonds are payable from the special ad valorem property tax of 2.00%, which is restricted for debt service and retained by GDB for such purposes.

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

Year ending June 30,	Principal	Interest
2008	\$ 29,067,000	\$ 20,644,509
2009	31,034,000	19,030,539
2010	31,442,000	17,325,239
2011	32,988,000	15,530,609
2012	30,126,000	13,768,101
2013 – 2017	106,393,000	39,252,032
2018 – 2022	65,208,000	23,903,331
2023 – 2027	48,230,000	10,007,287
2028 – 2030	10,306,000	1,525,905
Total	<u>\$ 384,794,000</u>	<u>\$ 160,987,552</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
2008	\$ 264,279	\$ 418,422
2009	287,639	395,062
2010	313,065	369,637
2011	340,736	341,965
2012	370,854	311,847
2013 – 2017	2,407,899	1,005,607
2017 – 2019	1,057,416	80,402
Total	<u>\$ 5,041,888</u>	<u>\$ 2,922,942</u>

D. Notes Payable

During November 2004, the Municipality issued a special obligation refunding note with a commercial bank for approximately \$40 million to refinance certain notes payable to GDB. The note bears interest at 90-day London Interbank Offering Rate ("LIBOR") plus 1.25% (6.61% at June 30, 2007) and is payable semi-annually, and matures at various dates through July 1, 2029. The note will be repaid through withholdings of property tax advances by CRIM.

During May 2005, the Municipality issued a note payable to GDB for approximately \$17.3 million. The note is payable in annual installments ranging from \$1.4 to \$2.1 million through July 2014 and bears interest at 1.25% over 90-day LIBOR with a minimum of 5% and maximum of 12% (6.61% at June 30, 2007). The proceeds of the note were used principally to pay debt incurred in prior years.



During June 2006, the Municipality issued a note payable for \$31.4 million. The note is payable in annual installments through July 2030 ranging from \$0.5 to \$2.4 million and will bear interest at 90-day LIBOR plus 1.25 percent (6.61% at June 30, 2007). 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. There were no borrowings made during fiscal year 2007. The borrowings are payable in annual installments, mature at various dates through July 2022 and bear interest at 0.2% over 90-day LIBOR (5.38% at June 30, 2007).

The notes are payable as follows:

Year ending June 30,	Principal	Interest
2008	\$ 5,918,007	\$ 7,712,972
2009	6,239,789	7,447,094
2010	6,584,574	7,153,634
2011	6,957,536	6,833,374
2012	7,333,858	6,457,694
2013 – 2017	36,188,050	26,768,425
2018 – 2022	42,289,769	16,799,134
2023 – 2027	26,847,900	6,550,680
2028 – 2030	12,484,131	941,433
Total	<u>\$ 150,843,614</u>	<u>\$ 86,664,440</u>

E. Borrowings from CRIM

This amount represents the balance owed to CRIM at June 30, 2007, from the excess of property tax advances over actual collections during fiscal years ended June 30, 1992, 1999, 2000 and 2005.

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, 2007, the related unpaid property tax advances presented in the statement of net assets amounted to approximately \$5.5 million.

On January 26, 2000, Public Law No. 42 was enacted, which authorized CRIM to obtain a loan of up to \$200 million, to allow for the financing of the debt that the Municipalities of Puerto Rico have with CRIM arising from final settlements of property tax advances versus 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 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 as of June 30, 2007 approximates \$26.0 million. The repayment agreement bears interest at a fixed interest rate of 6.19%.

During the fiscal year ended June 30, 2005, advances of property taxes exceeded the amounts actually collected by CRIM by approximately \$5.8 million. CRIM retained approximately \$2.9 million of such excess from the 2006-07 property tax advances and the remaining balance will not bear interest.

During the fiscal year ended June 30, 2006, advances of property taxes exceeded the amounts actually collected by CRIM by approximately \$687,000. CRIM will retain such excess from the 2007-2008 property tax advances and the repayment will not bear interest.

The borrowings are payable as follows:

Year ending June 30,	Principal	Interest
2008	\$ 6,814,280	\$ 1,576,190
2009	476,181	1,548,040
2010	506,101	1,518,120
2011	537,900	1,486,321
2012	571,697	1,452,253
2013 – 2017	3,444,623	6,676,481
2018 – 2022	4,671,594	5,449,511
2023 – 2027	6,335,610	3,725,494
2028 – 2031	8,592,349	1,578,257
Total	\$ 31,950,335	\$ 25,010,667

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 30, 2007, the capitalized asset amounting to approximately \$21.2 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 of line of credit amounted to approximately \$3.0 million at June 30, 2007. The proceeds of the line were use for the 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, 2007, were as follows:

Year ending June 30,	Amount
2008	\$ 1,191,072
2009	637,752
2010	28,369
Total minimum lease payments	1,857,193
Less amount representing interest (ranging from 1.66% to 7.40%)	56,786
Present value of minimum lease payments	\$ 1,800,407



G. Compensated Absences

The government-wide statement of net assets includes approximately \$17.5 million, \$10.6 million and \$2.2 million of accrued vacation benefits, accrued sick leave benefits and payroll related benefits, respectively, representing the Municipality's commitment to fund such costs from future operations.

H. Net Pension Obligation

The amount reported as net pension obligation of approximately \$101.5 million represents the amount owed by the Municipality for the unfunded required pension contribution to the pension plan and the unfunded cost for the early voluntary retirement termination benefit as described in Notes 11 and 12, respectively. The net pension obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets.

I. 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 to be approximately \$900,000 for a period of approximately 23 years. The balance of postclosure costs of \$20.7 million is reported in the statement of net assets. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations.

J. Other Liabilities

Other liabilities represent the amount accrued for possible claims arising from federal cost disallowances as a result of prior audits of federal financed program.

11. 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 salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, 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 salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, 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 salary, 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 salary, as defined, for all years of creditable service, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, 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 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, 2007 amounted to approximately \$11.3 million. The Municipality's contributions during the years ended June 30, 2007, 2006 and 2005 amounted to approximately \$11.9 million, \$13.0 million, and \$13.1 million, respectively. These amounts represented 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution of \$8,543,234 to fund the retroactive adjustment related to the changes.

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, 2007, 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.



Annual Pension Cost

The Municipality recommended contribution, pension cost and increase in net pension obligation for the year ended June 30, 2007, is as follows:

	Amount
Annual required contribution	\$ 11,926,909
Adjustment to annual required contribution	8,543,234
Annual pension cost	20,470,143
Contributions made	(11,926,909)
Increase in net pension obligation	8,543,234
Net pension obligation, beginning of year	-
Net pension obligation, end of year	\$ 8,543,234

12. Voluntary Termination Benefit

In addition to the pension benefits described above, the Municipality offered a voluntary early retirement program (the Program) in accordance to Resolution No. 41, Series 2006-2007. This Program was offered to employees who currently participate in the in the System and had completed 25 years of creditable service. All eligible employees must have notified the Municipality on or before November 21, 2006 of their intention to retire on December 31, 2006. The retirees will receive the full benefit of 75% of their average salary, as described in Note 11 of these financial statements. As of June 30 2007, nine hundred fifty-four (954) employees elected to participate in the Program.

The cost of the Program is estimated to be approximately \$120 million which is the difference between the present value of the accelerated benefits of the Program and the present value of the benefits under the terms of Act No. 447 of 1951. Under the accrual basis of accounting, a liability and expense of \$120 million was recognized on the statement of net assets and statement of activities, respectively. Under the modified accrual basis of accounting, the expenditure will be recognized, in the fund statements, when the liability is expected to be liquidated with expendable available financial resources.

Also, the Municipality entered into an agreement with the System to determine the Municipality's funding requirements for the cost of the Program. The Municipality's annual funding requirements are:

Year ending June 30,	Annual Pension Cost	Percentage Required Contribution	Actual Pension Contribution	Net Pension Obligation
2007	\$ 27,000,000	22.5%	\$ 27,000,000	\$ -
2008	18,000,000	15.0%	-	18,000,000
2009	-	0.0%	-	-
2010	28,800,000	24.0%	-	28,800,000
2011	24,000,000	20.0%	-	24,000,000
2012	22,200,000	18.5%	-	22,200,000
	<u>\$ 120,000,000</u>	<u>100.0%</u>	<u>\$ 27,000,000</u>	<u>\$ 93,000,000</u>

The Municipality has made its required contribution to the Program for the year ended June 30, 2007.

13. Net Assets

Net assets invested in capital assets, net of related debt is comprised of the following:

	Amount
Capital assets, net of accumulated depreciation	\$ 540,291,685
Outstanding balance on capital related debt	(439,242,295)
Unspent capital debt proceeds	90,654,766
Total invested in capital assets, net of related debt	<u>\$ 191,704,156</u>

14. 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 maintains 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 Municipality also obtained tail insurance coverage for incidents incurred but not reported prior to October 14, 1990.

15. 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, 2007, amounted to approximately \$5.1 million and \$2.0 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, 2007 of approximately \$81.6 million for the construction, improvements, or renovation of several municipal facilities.

C. Electric Energy Infrastructure

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 taxes. In May 2004, PREPA entered into an agreement to settle balances owed to all municipalities for previous years. As part of this agreement, PREPA paid approximately \$10 million to the Municipality during fiscal year 2004. In addition, PREPA will absorb the cost of approximately \$8.4 million for future electric energy construction of infrastructure assets, as approved by the Municipality through fiscal year 2007.



16. Contingencies

A. Losses

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, including medical malpractice claims from the Municipality's Department of Health.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$5.5 million at June 30, 2007, 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 the advice of 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, 2007, 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.

B. Gains

The Municipality is a plaintiff in a number of lawsuits arising principally from claims against the Commonwealth of Puerto Rico for alleged, among others, non compliance with certain government-mandated transactions and the final settlement of property tax revenues provided by CRIM. Also, the Municipality is a plaintiff on several lawsuits from claims against taxpayers for alleged differences on computation of the municipal license tax.

With respect to pending and threatened litigation, the Municipality has not reported any receivables at June 30, 2007, for anticipated favorable judgments of approximately \$75 million. Although this amount was not included in the financial statements, the amount estimated as a probable receivable would represent future available financial resources for expenditures.

It is management's opinion, based on the advice of legal counsel, that the potential claims against the Commonwealth of Puerto Rico and certain taxpayers will materially improve the financial condition of the Municipality.

17. Subsequent Events

During July 2007, the Commonwealth of Puerto Rico approved legislation to amend the Internal Revenue Code of Puerto Rico to, among others, impose an uniform municipal sales and usage tax of one and a half percent (1.5%) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item.

On October 31, 2007, the Municipality entered into an agreement with the Administrator of the System to finance the unfunded additional required contributions of approximately \$8.5 million with a down payment of 10% and annual installments through February 2011 and will not bear interest.

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REQUIRED SUPPLEMENTARY INFORMATION



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	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 146,955,742	\$ 149,572,891	\$ 155,896,643	\$ 6,323,752
Municipal license tax	133,000,000	137,671,290	145,598,824	7,927,534
Sales Tax	-	40,500,000	41,362,113	862,113
Licenses, permits and other local taxes	23,230,320	23,230,320	29,629,779	6,399,459
Charges for services	45,053,927	45,053,927	40,261,671	(4,792,256)
Fines and forfeitures	4,880,000	4,880,000	5,011,274	131,274
Interest	5,000,000	5,000,000	7,285,630	2,285,630
Intergovernmental - local	27,311,161	27,311,161	27,077,200	(233,961)
Other	34,894,850	34,894,850	57,599,330	22,704,480
Total revenues	420,326,000	468,114,439	509,722,464	41,608,025
EXPENDITURES:				
Current:				
General government	106,538,346	119,365,509	142,832,997	(23,467,488)
Public safety	45,308,265	48,384,969	48,625,690	(240,721)
Public works	52,000,000	61,871,609	58,510,839	3,360,770
Culture and recreation	9,284,357	10,870,508	9,915,097	955,411
Health and welfare	185,541,067	203,368,168	190,292,511	13,075,657
Urban development	9,109,090	9,137,585	9,028,725	108,860
Economic development	9,341,414	9,860,450	10,695,935	(835,485)
Education	3,203,461	5,255,641	7,051,870	(1,796,229)
Total expenditures	420,326,000	468,114,439	476,953,664	(8,839,225)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 32,768,800	\$ 32,768,800
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 509,722,464
Differences - budget to GAAP:				
The proceeds from the issuance of long-term debt are budgetary resources but are regarded as other financing sources for financial I reporting purposes				(22,581,000)
The proceeds from the sale of capital assets are budgetary resources but are regarded as Other Financing Sources for financial reporting purposes				(10,740,395)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				\$ 476,401,069
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 476,953,664
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				31,423,115
Current year provision of allowance for bad debt recorded as expenditures for GAAP basis				37,721,803
Current year encumbrances recorded as expenditures for budgetary purposes				(24,243,844)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				\$ 521,854,738

The notes to budgetary comparison schedule are an integral part of this schedule.



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 USGAAP, 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.

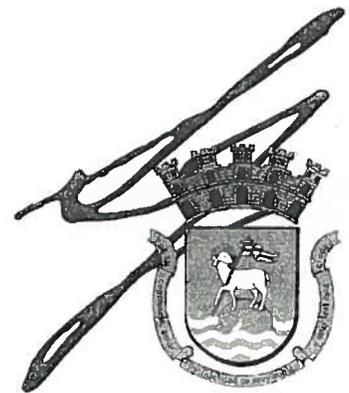
For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or 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, 2007 representing the original budget. There were various supplemental appropriations for the year ended June 30, 2007.

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COMBINING FINANCIAL STATEMENTS



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SPECIAL REVENUE FUNDS

Special Revenue Funds are established to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are restricted by law and administrative action to expenditures for specified purposes.

Department of Justice Funds - These funds account for federal grants received related to various homeland security and criminal justice programs.

Department of Labor Funds - These funds account for federal grants received related with the Work Investment Act (WIA).

Health & Human Services Funds - These funds account for federal grants received related to various health services programs, Community Services Block Grants, Ryan White Act and Head Start programs.

Housing and Urban Development Funds - These funds account for federal grants received related to various housing and urban development, rehabilitation and assistance programs.

Miscellaneous Special Revenue Funds - These funds account for miscellaneous funds operated by the Municipality and subsidized in part by Local, State and Federal monies as well as miscellaneous sources.

Comunidad de Retiro - This fund accounts for the financial position and operation of Comunidad de Retiro.

CAPITAL PROJECT FUNDS

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

Joint Resolution Funds - These funds account for monies received by the Commonwealth of Puerto Rico for the construction of capital assets and infrastructure.

Citizen Participation Funds - These funds account for monies received by the CRIM to citizen's organizations for the construction or improvements of capital assets on their communities.

Various Bond Issue Funds - These funds account for various bond issues before 2000 for the construction or acquisitions of capital assets and equipments.

2000 Bond Issue Funds - These funds account for 2000 bond issues for the construction or acquisitions of capital assets and equipments.

2001 Bond Issue Funds - These funds account for 2001 bond issues for the construction or acquisitions of capital assets and equipments.

2002 Bond Issue Funds - These funds account for 2002 bond issues for the construction or acquisitions of capital assets and equipments.

2003 Bond Issue Funds - These funds account for 2003 bond issues for the construction or acquisitions of capital assets and equipments.



2004 Bond Issue Funds – These funds account for 2004 bond issues for the construction or acquisitions of capital assets and equipments.

2005 Bond Issue Funds – These funds account for 2005 bond issues for the construction or acquisitions of capital assets and equipments.

2006 Bond Issue Funds – These funds account for 2006 bond issues for the construction or acquisitions of capital assets and equipments.

2007 Bond Issue Funds – These funds account for 2007 bond issues for the construction or acquisitions of capital assets and equipments.

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 22,319,611	\$ 32,968,066	\$ 55,287,677
Cash with fiscal agent	1,841,261	63,904,406	65,745,667
Accounts receivable - intergovernmental	16,552,174	-	16,552,174
Accounts receivable - other	238,543	(76,173)	162,370
Due from other fund	-	2,902,960	2,902,960
Inventories	1,988,361	-	1,988,361
Restricted assets - cash and cash equivalents	3,448,927	-	3,448,927
Total assets	\$ 46,388,877	\$ 99,699,259	\$ 146,088,136
LIABILITIES AND FUND BALANCES (DEFICIT)			
Liabilities:			
Accounts payable and accrued liabilities	\$ 3,377,968	\$ 13,051,658	\$ 16,429,626
Due to other fund	38,433,380	5,022,371	43,455,751
Deferred revenues	5,844,904	-	5,844,904
Total liabilities	47,656,252	18,074,029	65,730,281
Fund balances (deficit):			
Reserved for inventories	1,988,361	-	1,988,361
Reserved for capital projects	-	81,625,230	81,625,230
Unreserved in Special Revenue Funds	(3,255,736)	-	(3,255,736)
Total fund balances (deficit)	(1,267,375)	81,625,230	80,357,855
Total liabilities and fund balances (deficit)	\$ 46,388,877	\$ 99,699,259	\$ 146,088,136

The notes to the financial statements are an integral part of this statement.



	Department of Justice Funds	Department of Labor Funds	Health & Human Services Funds	Housing & Urban Development Funds
ASSETS				
Cash and cash equivalents	\$ 53,245	\$ 444,724	\$ 4,905,500	\$ 14,713,925
Cash with fiscal agent	-	1,841,261	-	-
Accounts receivable - intergovernmental	1,655,019	1,521,991	9,102,419	3,418,837
Accounts receivable - other	-	782	25,940	94,680
Inventories	-	-	1,988,361	-
Restricted assets - cash and cash equivalents	-	-	-	-
Total assets	\$ 1,708,264	\$ 3,808,758	\$ 16,022,220	\$ 18,227,442
LIABILITIES AND FUND BALANCES (DEFICIT)				
Liabilities:				
Accounts payable and accrued liabilities	\$ 317,964	\$ 217,679	\$ 321,080	\$ 2,073,989
Due to other fund	296,834	3,591,079	13,460,763	14,978,360
Deferred revenues	1,093,466	-	2,240,377	2,121,621
Total liabilities	1,708,264	3,808,758	16,022,220	19,173,970
Fund balances (deficit):				
Reserved for inventories	-	-	1,988,361	-
Unreserved in Special Revenue Funds	-	-	(1,988,361)	(946,528)
Total fund balances (deficit)	-	-	-	(946,528)
Total liabilities and fund balances (deficit)	\$ 1,708,264	\$ 3,808,758	\$ 16,022,220	\$ 18,227,442

The notes to the financial statements are an integral part of this statement.

Miscellaneous Special Revenue Funds	Comunidad de Retiro	Total Nonmajor Special Revenues Funds
\$ 2,186,353	\$ 15,864	\$ 22,319,611
-	-	1,841,261
853,908	-	16,552,174
10,835	106,306	238,543
-	-	1,988,361
-	3,448,927	3,448,927
<u>\$ 3,051,096</u>	<u>\$ 3,571,097</u>	<u>\$ 46,388,877</u>

\$ 291,045	\$ 156,211	\$ 3,377,968
6,106,344	-	38,433,380
389,440	-	5,844,904
<u>6,786,829</u>	<u>156,211</u>	<u>47,656,252</u>

-	-	1,988,361
<u>(3,735,733)</u>	<u>3,414,886</u>	<u>(3,255,736)</u>
<u>(3,735,733)</u>	<u>3,414,886</u>	<u>(1,267,375)</u>
<u>\$ 3,051,096</u>	<u>\$ 3,571,097</u>	<u>\$ 46,388,877</u>



	Joint Resolution Funds	Citizen Participation Funds	Various Bond Issue Funds	2000 Bond Issue Funds	2001 Bond Issue Funds
ASSETS					
Cash and cash equivalents	\$ 5,990,277	\$ 227,429	\$ 4,472,792	\$ -	\$ -
Cash with fiscal agent	-	-	14,675,615	1,964,501	6,057,341
Accounts receivable - intergovernmental	-	-	-	-	-
Accounts receivable - other	-	-	(39,633)	(36,540)	-
Due from other fund	-	1,192,253	-	386,881	97,912
Total assets	<u>\$ 5,990,277</u>	<u>\$ 1,419,682</u>	<u>\$19,108,774</u>	<u>\$ 2,314,842</u>	<u>\$ 6,155,253</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 173,518	\$ 11,729	\$ 6,007,497	\$ 1,208,181	\$ 160,090
Due to other fund	1,231,886	-	1,734,072	-	-
Deferred revenues	-	-	-	-	-
Total liabilities	<u>1,405,404</u>	<u>11,729</u>	<u>7,741,569</u>	<u>1,208,181</u>	<u>160,090</u>
Fund balances:					
Reserved for capital projects	<u>4,584,873</u>	<u>1,407,953</u>	<u>11,367,205</u>	<u>1,106,661</u>	<u>5,995,163</u>
Total fund balances	<u>4,584,873</u>	<u>1,407,953</u>	<u>11,367,205</u>	<u>1,106,661</u>	<u>5,995,163</u>
Total liabilities and fund balances	<u>\$ 5,990,277</u>	<u>\$ 1,419,682</u>	<u>\$19,108,774</u>	<u>\$ 2,314,842</u>	<u>\$ 6,155,253</u>

The notes to the financial statements are an integral part of this statement.

2002 Bond Issue Funds	2003 Bond Issue Funds	2004 Bond Issue Funds	2005 Bond Issue Funds	2006 Bond Issue Funds	2007 Bond Issue Funds	Total Nonmajor Capital Project Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$22,277,568	\$ 32,968,066
6,910,515	4,625,357	1,345,735	4,173,159	24,152,183	-	63,904,406
-	-	-	-	-	-	-
-	-	-	-	-	-	(76,173)
564,027	368,566	293,321	-	-	-	2,902,960
<u>\$ 7,474,542</u>	<u>\$ 4,993,923</u>	<u>\$ 1,639,056</u>	<u>\$ 4,173,159</u>	<u>\$ 24,152,183</u>	<u>\$22,277,568</u>	<u>\$ 99,699,259</u>
\$ 3,822,901	\$ 513,322	\$ 590,008	\$ 49,951	\$ 514,461	\$ -	\$ 13,051,658
-	-	-	192,894	1,554,412	309,107	5,022,371
-	-	-	-	-	-	-
<u>3,822,901</u>	<u>513,322</u>	<u>590,008</u>	<u>242,845</u>	<u>2,068,873</u>	<u>309,107</u>	<u>18,074,029</u>
3,651,641	4,480,601	1,049,048	3,930,314	22,083,310	21,968,461	81,625,230
3,651,641	4,480,601	1,049,048	3,930,314	22,083,310	21,968,461	81,625,230
<u>\$ 7,474,542</u>	<u>\$ 4,993,923</u>	<u>\$ 1,639,056</u>	<u>\$ 4,173,159</u>	<u>\$ 24,152,183</u>	<u>\$22,277,568</u>	<u>\$ 99,699,259</u>



**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007**

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES:			
Charges for services	\$ 2,050,380	\$ 262,081	\$ 2,312,461
Interest	482,970	-	482,970
Intergovernmental Federal	107,604,674	-	107,604,674
Intergovernmental Local	-	1,668,432	1,668,432
Other	10,844,484	-	10,844,484
Total revenues	<u>120,982,508</u>	<u>1,930,513</u>	<u>122,913,021</u>
EXPENDITURES:			
Current:			
General government	7,979,009	1,294,698	9,273,707
Public safety	3,721,611	1,617,061	5,338,672
Public works	57,943	2,587,331	2,645,274
Culture and recreation	849,288	776,886	1,626,174
Health and welfare	47,884,458	2,626,237	50,510,695
Urban development	45,166,065	634,748	45,800,813
Economic development	10,975,476	(23,151)	10,952,325
Education	2,408,416	1,647,230	4,055,646
Capital outlays	1,001,789	17,881,100	18,882,889
Debt service:			
Principal	2,927,816	-	2,927,816
Interest and other charges	3,490,699	-	3,490,699
Total expenditures	<u>126,462,570</u>	<u>29,042,140</u>	<u>155,504,710</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,480,062)</u>	<u>(27,111,627)</u>	<u>(32,591,689)</u>
OTHER FINANCING SOURCES:			
Transfer in	-	-	-
Bonds issued	-	22,360,000	22,360,000
Transfer out	-	-	-
Total other financing sources	<u>-</u>	<u>22,360,000</u>	<u>22,360,000</u>
NET CHANGES IN FUND BALANCES (DEFICIT)	<u>(5,480,062)</u>	<u>(4,751,627)</u>	<u>(10,231,689)</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>4,212,687</u>	<u>86,376,857</u>	<u>90,589,544</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (1,267,375)</u>	<u>\$ 81,625,230</u>	<u>\$ 80,357,855</u>

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BAANCES (DEFICIT) -
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2007**

	Department of Justice Funds	Department of Labor Funds	Health & Human Services Funds	Housing & Urban Development Funds
REVENUES:				
Charges for services	\$ -	\$ -	\$ -	\$ -
Interest	220	-	90,091	391,341
Intergovernmental Federal	3,433,558	8,276,000	41,570,696	47,050,994
Intergovernmental Local	-	-	-	-
Other	-	2,265,048	2,968,569	5,268,181
Total revenues	<u>3,433,778</u>	<u>10,541,048</u>	<u>44,629,356</u>	<u>52,710,516</u>
EXPENDITURES:				
Current:				
General government	1,069,987	-	6,177,401	731,621
Public safety	2,116,507	393,038	-	232,119
Public works	-	-	-	57,943
Culture and recreation	-	-	-	836,320
Health and welfare	217,800	6,698	40,540,274	2,856,961
Urban development	-	-	-	43,256,807
Economic development	-	9,825,761	-	1,141,337
Education	-	(21,730)	-	-
Capital outlays	-	-	-	439,963
Debt service:				
Principal	-	-	-	2,685,000
Interest and other charges	-	-	-	3,490,699
Total expenditures	<u>3,404,294</u>	<u>10,203,767</u>	<u>46,717,675</u>	<u>55,728,770</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>29,484</u>	<u>337,281</u>	<u>(2,088,319)</u>	<u>(3,018,254)</u>
OTHER FINANCING SOURCES:				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES (DEFICIT)	<u>29,484</u>	<u>337,281</u>	<u>(2,088,319)</u>	<u>(3,018,254)</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(29,484)</u>	<u>(337,281)</u>	<u>2,088,319</u>	<u>2,071,726</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (946,528)</u>

The notes to the financial statements are an integral part of this statement.

(Continued)



COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BAANCES (DEFICIT) -
NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2007

	Miscellaneous Special Revenue Funds	Commitment or Ratio	Total Nonmajor Special Revenue Funds
REVENUES:			
Charges for services	\$ -	\$ 2,050,380	\$ 2,050,380
Interest	1,318	-	482,970
Intergovernmental Federal	7,273,426	-	107,604,674
Intergovernmental Local	-	-	-
Other	342,686	-	10,844,484
Total revenues	<u>7,617,430</u>	<u>2,050,380</u>	<u>120,982,508</u>
EXPENDITURES:			
Current:			
General government	-	-	7,979,009
Public safety	979,947	-	3,721,611
Public works	-	-	57,943
Culture and recreation	12,968	-	849,288
Health and welfare	4,262,725	-	47,884,458
Urban development	256,320	1,652,938	45,166,065
Economic development	8,378	-	10,975,476
Education	2,430,146	-	2,408,416
Capital outlays	541,155	20,671	1,001,789
Debt service:			
Principal	-	242,816	2,927,816
Interest and other charges	-	-	3,490,699
Total expenditures	<u>8,491,639</u>	<u>1,916,425</u>	<u>126,462,570</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(874,209)</u>	<u>133,955</u>	<u>(5,480,062)</u>
OTHER FINANCING SOURCES:			
Transfer in	-	-	-
Transfer out	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES (DEFICIT)	<u>(874,209)</u>	<u>133,955</u>	<u>(5,480,062)</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(2,861,524)</u>	<u>3,280,931</u>	<u>4,212,687</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (3,735,733)</u>	<u>\$ 3,414,886</u>	<u>\$ (1,267,375)</u>

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -
NONMAJOR CAPITAL PROJECTS FUNDS
For the Year Ended 30, 2007**

	Joint Resolution Funds	Citizen Participation Funds	Various Bond Issue Funds	2000 Bond Issue Funds
REVENUES:				
Charges for services	\$ -	\$ -	\$ 164,354	\$ -
Interest	-	-	-	-
Intergovernmental Federal	-	-	-	-
Intergovernmental Local	1,468,432	200,000	-	-
Other	-	-	-	-
Total revenues	<u>1,468,432</u>	<u>200,000</u>	<u>164,354</u>	<u>-</u>
EXPENDITURES:				
Current:				
General government	42,325	(31,568)	10,347	-
Public safety	5,434	-	656,832	-
Public works	116,039	-	364,554	(160,000)
Culture and recreation	488,632	-	89,045	34,731
Health and welfare	51,841	(52,080)	1,838,701	42,386
Urban development	44,574	-	262,262	-
Economic development	(966)	-	(39,473)	(1,500)
Education	-	-	-	-
Capital outlays	310,410	116,974	2,228,697	307,668
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>1,058,289</u>	<u>33,326</u>	<u>5,410,965</u>	<u>223,285</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>410,143</u>	<u>166,674</u>	<u>(5,246,611)</u>	<u>(223,285)</u>
OTHER FINANCING SOURCES:				
Transfer in	-	-	-	-
Bonds issued	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES (DEFICIT)	<u>410,143</u>	<u>166,674</u>	<u>(5,246,611)</u>	<u>(223,285)</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>4,174,730</u>	<u>1,241,279</u>	<u>16,613,816</u>	<u>1,329,946</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 4,584,873</u>	<u>\$ 1,407,953</u>	<u>\$ 11,367,205</u>	<u>\$ 1,106,661</u>

The notes to the financial statements are an integral part of this statement.

(Continued)



**MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -
NONMAJOR CAPITAL PROJECT FUNDS
For the Year Ended June 30, 2007**

	2001 Bond Issue Funds	2002 Bond Issue Funds	2003 Bond Issue Funds	2004 Bond Issue Funds
REVENUES:				
Charges for services	\$ -	\$ -	\$ 66,897	\$ -
Interest	-	-	-	-
Intergovernmental Federal	-	-	-	-
Intergovernmental Local	-	-	-	-
Other	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>66,897</u>	<u>-</u>
EXPENDITURES:				
Current:				
General government	83,000	137,162	577,202	177,906
Public safety	-	-	-	159,842
Public works	-	45,779	-	1,024,524
Culture and recreation	52,004	-	-	11,935
Health and welfare	2,887	-	(6,742)	107,262
Urban development	3,880	398,714	(263,628)	108,307
Economic development	-	-	-	9,995
Education	-	-	-	-
Capital outlays	387,423	344,342	1,609,172	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>529,194</u>	<u>925,997</u>	<u>1,916,004</u>	<u>1,599,771</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(529,194)</u>	<u>(925,997)</u>	<u>(1,849,107)</u>	<u>(1,599,771)</u>
OTHER FINANCING SOURCES:				
Transfer in	-	-	-	-
Bonds issued	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES (DEFICIT)	<u>(529,194)</u>	<u>(925,997)</u>	<u>(1,849,107)</u>	<u>(1,599,771)</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>6,524,357</u>	<u>4,577,638</u>	<u>6,329,708</u>	<u>2,648,819</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 5,995,163</u>	<u>\$ 3,651,641</u>	<u>\$ 4,480,601</u>	<u>\$ 1,049,048</u>

The notes to the financial statements are an integral part of this statement.

2005 Bond Issue Funds	2006 Bond Issue Funds	2007 Bond Issue Funds	Total Nonmajor Capital Project Funds
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\$ -	\$ 30,830	\$ -	\$ 262,081
-	-	-	-
-	-	-	-
-	-	-	1,668,432
-	-	-	-
-	30,830	-	1,930,513

61,751	154,473	82,100	1,294,698
-	794,953	-	1,617,061
-	1,196,435	-	2,587,331
-	(117,749)	218,288	776,886
-	569,847	72,135	2,626,237
381,691	(301,052)	-	634,748
-	(10,223)	19,016	(23,151)
-	1,647,230	-	1,647,230
1,283,846	11,292,568	-	17,881,100
-	-	-	-
-	-	-	-
1,727,288	15,226,482	391,539	29,042,140

(1,727,288)	(15,195,652)	(391,539)	(27,111,627)
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-	-	-	-
-	-	22,360,000	22,360,000
-	-	-	-
-	-	22,360,000	22,360,000

(1,727,288)	(15,195,652)	21,968,461	(4,751,627)
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5,657,602	37,278,962	-	86,376,857
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\$ 3,930,314	\$ 22,083,310	\$ 21,968,461	\$ 81,625,230
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MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

PART II

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





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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 7, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Comunidad del Retiro, as described in our report on the Municipality's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control. We consider the deficiencies 7-01 to 7-04 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies previously mentioned, we consider items 07-01 and 07-04 to be material weaknesses.

Compliance and Other Matters

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

The Municipality's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Municipality's response and, accordingly, we express no opinion on it.

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

December 7, 2007

Aquino, De Cordova, Alfaro & Co. LLP

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original report



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

PART III

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





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

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

Compliance

We have audited the compliance of the Municipality of San Juan, Puerto Rico (the "Municipality"), with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements, applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit. Other auditors audited the financial statements of Comunidad del Retiro, as described in our report on the Municipality's financial statements. This report does not include the results of the other auditors testing of compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 that are reported separately by those auditors.

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

As described in items 07-05 to 07-28 in the accompanying schedule of findings and questioned costs, the Municipality did not comply with the following requirements:

<u>Compliance Requirement</u>	<u>CFDA #</u>	<u>Major Program</u>	<u>Reference Number</u>
Allowable Costs/Cost Principles	14 871	Section 8 Housing Choice Vouchers	07-08
	14 241	Housing Opportunities for Persons with AIDS	07-06, 07-16, 07-17, 07-19
	93 914	HIV Emergency Relief Project Grants	07-24
Cash Management	93 569	Community Service Block Grant	07-28
	93 600	Head Start	07-26
	93 914	HIV Emergency Relief Project Grants	07-25
	14 241	Housing Opportunities for Persons with AIDS	07-20
Davis-Bacon Act	14 248	Community Development Block Grant/Loan Guarantee Section 108	07-22
	14 218	Community Development Block Grant/Entitlement Grants	07-22
Eligibility	14 871	Section 8 Housing Choice Vouchers	07-07, 07-08
	14 856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	07-11, 07-12
	14 241	Housing Opportunities for Persons with AIDS	07-16, 07-17
Reporting	14 871	Section 8 Housing Choice Vouchers	07-07, 07-10
	14 856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	07-11, 07-14, 07-15
	14 239	HOME Investment Program	07-21
	14 218	Community Development Block Grant/Entitlement Grants	07-23
	93 600	Head Start	07-27
Subrecipient Monitoring	14 241	Housing Opportunities for Persons with AIDS	07-16, 07-19
	93 914	HIV Emergency Relief Projects Grants	07-24
Special Tests and Provisions	14 871	Section 8 Housing Choice Vouchers	07-07, 07-09
	14 856	Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	07-11, 07-13
	14 241	Housing Opportunities for Persons with AIDS	07-16, 07-18

Compliance with such requirements is necessary, in our opinion, for the Municipality to comply with requirements applicable to these programs.



In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weakness as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 7-06, 7-10, 7-11, 7-14, 7-15, 7-16, 7-18 to 7-28 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 07-05, 07-08, 07-09, 07-12, 07-13 and 07-17 to be material weaknesses.

The Municipality's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Municipality's response and, accordingly, we express no opinion on it.

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

March 14, 2008

Aquino, De Cordova, Alfaro & Co. LLP

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MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS



**MUNICIPALITY OF SAN JUAN SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007
PART IV — SUMMARY OF AUDITORS' RESULTS**

1. The independent auditors' report on the basic financial statements expressed an unqualified opinion.
2. Significant deficiencies in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Significant deficiencies in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The independent auditors' report on compliance with requirements applicable to major Federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Municipality's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Section 8 Housing Choice Vouchers	14.871
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Housing Opportunities for Persons with AIDS	14.241
HOME Investment Partnership Program	14.239
CDBG Loan Guarantee Section 108	14.248
Community Development Block Grants/Entitlement Grants	14.218
HIV Emergency Relief Project Grants	93.914
Workforce Investment Act ("WIA")	17.258, 17.259, 17.260
Head Start	93.600
Community Service Block Grants	93.569

8. A threshold of \$3,000,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Municipality did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.



MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2007

Reference Number	Findings	Questioned Costs for the Year Ended June 30, 2007
Accounting and Finance Department		
07-01	Deficit in the Municipality's general fund at June 30, 2007	\$ -
07-02	The Municipality is not canceling outstanding checks, which have been outstanding for a period in excess of six months.	
07-03	Inactive and unnecessary funds and accounts are not closed.	
07-04	Internal control over property management need to be strengthened.	
All federal programs		
07-05	The municipality does not prepare periodic certifications.	
Section 8 Housing Choice Vouchers		
07-06	The Municipality should improve its collection efforts over its accounts receivable.	-
07-07	The Municipality should improve its internal control over its Section 8 Housing Choice Voucher Program.	-
07-08	The Municipality must improve policies and procedures for determination of participants eligibility.	10,157
07-09	The Municipality did not comply with federal requirements regarding housing quality standards inspections.	1,671
07-10	Financial report submitted to HUD did not agree with the accounting records.	
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation		
07-11	The Municipality should improve its internal control over its Lower Income Moderate Rehabilitation Program.	
07-12	The Municipality must improve policies and procedures for determination of participants eligibility.	4,458
07-13	The Municipality did not comply with federal requirements regarding housing quality standards inspections and enforcements.	5,376
07-14	Financial report submitted to HUD did not agree with the accounting records.	-
07-15	The Municipality did not submit the HUD 40118, Annual Progress Report.	-
	Sub-total	21,662



MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2007

Reference Number	Findings	Questioned Costs for the Year Ended June 30, 2007
Housing Opportunities for Persons with AIDS		
07-16	The Municipality must improve its internal control over its Hopwa funds.	-
07-17	The Municipality must improve policies and procedures for determination of participants eligibility.	-
07-18	The Municipality did not comply with federal requirements regarding housing quality standards inspections and enforcements.	3,352
07-19	The Municipality does not have adequate internal controls over the valuation of subgrantee proposals and monitoring subrecipients' activities.	-
07-20	The Municipality did not comply with federal requirements regarding cash management procedures to subrecipients.	-
Home Investment Program		
07-21	The Municipality did not submit the HUD 60002, Annual Report.	-
Community Development Block Grant/Loan Guarantee Section 108		
07-22	The construction contracts do not include a Davis Bacon Act clause.	-
07-23	The Municipality did not submit the HUD 60002, Annual Report.	-
HIV Emergency Relief Project Grants		
07-24	The Municipality must improve its subrecipient monitoring procedures.	-
07-25	The Municipality must improve its cash management activities.	-
Head Start Program		
07-26	The Municipality did not comply with federal requirements regarding cash management procedures.	-
07-27	Financial report submitted to HUD did not agree with the accounting records.	89,081
CSBG		
07-28	The Municipality did not comply with federal requirements regarding cash management procedures.	-
Total		\$ 114,095
Management agrees with findings and questioned costs Refer to corrective action plan.		



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

PART V

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



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-01

Department

Accounting and Finance

Category

Internal Control

Condition

The Municipality closed its year ended June 30, 2007 with a fund balance deficiency in the general fund of approximately \$30.0 million. In 2007, the Municipality reduced the deficit by approximately \$1,742,000 and established a long term financial plan to amortized the deficit in a period no longer than 40 years.

Criteria

In accordance with the Basic Standards Chapter IV, Section 17, the Finance Director has the responsibility of overseeing financial operations to prevent deficits in any municipal fund.

Effects

The continued occurrence of this situation may result in possible significant fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.

Cause

The above situation is primarily due to the fact that the Municipality in prior years was appropriating expenditures assuming revenues using the estimated tax collection projection provided by the Municipal Revenue Collection Center (the "Center"). Therefore, the Municipality entered into purchases and contracts for a total that exceeds the actual revenues earned and collected in property taxes. The budgeting system did not reflect actual revenues and therefore could not prevent the obligation of expenditures for which current resources were not available.

Recommendation

The Municipality should continue its efforts by revising and amending the budget as current information related to collections of budgeted revenues becomes available in order to prevent incurring obligations in excess of available resources.

Views of Responsible Officials

Management agrees



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-02

Department

Accounting and Finance

Category

Internal Control

Condition

The Municipality is not canceling outstanding checks which have been outstanding for a period in excess of six months.

Criteria

Chapter IV, Section 11, of the Basic Standards establishes that checks outstanding for more than one year should be canceled. However, municipal checks, depending on the bank account used and nature of payment, there may be cases in which the Municipality issues checks with an expiration date ranging from three months to one year.

Effects

This situation allows for a possible understatement of cash and an overstatement of expenditures and, in the case of Federal Funds, could result in questioned and disallowed costs.

Cause

This is caused by the lack of regular monthly review of bank reconciliations and adequate follow-up on reconciling items.

Recommendation

The Municipality should evaluate the outstanding checks lists on a monthly basis, and investigate checks that have not cleared the bank for an unreasonable period of time (i.e. three to six months), contact the payee and determine the underlying reasons as to why these have not been presented to the bank for payment.

Views of Responsible Officials

Management agrees.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-03

Department

Accounting and Finance Department

Category

Internal Control

Condition

Inactive and or unnecessary funds and accounts are not closed. The Municipality is maintaining an excessive number of funds and accounts that have been inactive for a long period. The accounting records include various funds and accounts, many of which have been inactive or had insignificant operations during the year ended June 30, 2007.

Criteria

Article 8 007 (b) of the Municipalities' Law establishes that funds should be closed when the fund's objectives have been completed.

Effects

The continued maintenance of these funds and accounts exposes the Municipality to the unauthorized use of funds from inactive accounts for activities not intended to be financed with these funds.

Cause

This situation occurs because the Municipality has not analyzed and closed inactive funds as well as the related bank accounts when the funds' objectives have been achieved or are no longer of relevance.

Recommendation

The Municipality should determine whether the intended objectives of these funds were met. The Municipality should close all funds that have complied with the requirements. Remaining balances in those funds should be investigated and properly transferred in accordance with local and Federal regulations.

Views of Responsible Officials

Management agrees.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-04

Department

Property Management

Category

Internal Control

Condition

Internal control over property management needs to be strengthened. The Municipality property records are not segregated by fund. According to the existing records, the cost of the property owned by the Municipality is approximately \$711.6 million as of June 30, 2007.

Criteria

Article 8.010 (c) of the Municipalities' Law states that the accounting system should provide: (a) complete information of the Municipality's operations; (b) proper and necessary financial information for the efficient administration of the Municipality; (c) effective controls and the accountability for all the funds, property and other municipal assets; and (d) necessary information for the preparation of accurate financial reports that could be used in the preparation of the municipal budget.

Chapter VII, Section 22 of the Basic Standards also establishes that property physical inventories should be performed on an annual basis, as part of the overall property management control of the Municipality. Updated inventory lists should be compared and agreed with general ledger, and differences, if any, should be investigated and reconciled.

Effects

There is a significant risk of unauthorized use or disposition because there are no controls to ensure accountability of assets by department/division. This inadequate property control may expose the Municipality to cost disallowances by the federal government for lost or stolen property acquired with federal funds.

Cause

The Property Division has not enforced the requirement for the departments that property inventory performed should ensure the proper accountability of assets.

Recommendation

A physical inventory of the Municipality's property should be performed as soon as possible for all departments and all differences should be investigated, adjusted and reconciled with the property recorded on the subsidiary ledgers. Federal regulations regarding disposition of property acquired with federal funds should be followed for property items which are not located as a result of such inventory.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Views of Responsible Officials

Management agrees.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

PART VI

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

2010



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-05

Federal program

All federal programs

Category

Compliance/Internal Control

Compliance requirement

Allowable costs

Condition

The Municipality does not prepare periodic employee certifications for employees paid with federal funds to ensure that these employees are working and performing duties directly related to the Federal programs from which they are being paid.

Criteria

OMB Circular A-87, Attachment B, section 8(h)(3) establishes that charges for salaries and wages of employees that work solely on a single federal award or cost objective, must be supported by periodic certifications stating that the employees worked solely on that particular Federal program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first knowledge of the work performed by the employee.

Effects

Lack of controls over the time charges of personnel that are working on Federal programs could result in payments to employees who are not working or performing duties directly related to the Federal programs from which they are being paid.

Cause

The Municipality's management has not implemented proper control activities to ensure that the required certifications are obtained from employees and included in the respective human resource records.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Questioned Costs

None

Recommendation

The Municipality's management should revise its internal control procedures to include obtaining periodic employee certifications that employees worked solely on a particular Federal program. For employees that work on several financial assistance programs, certifications as to what programs they work for should be obtained and their salaries allocated accordingly. Concurrently, a formal policy should be established by the Human Resources Department to track any changes in the tasks performed by employees and process the necessary adjustments to the employee's payroll on a timely basis.

Views of Responsible Officials

Management agrees.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-06

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance/Internal Control

Compliance requirements

Allowable costs/cost principles

Condition

The Municipality has not collected its accounts receivable from participants. The program has paid rental subsidies to owners on behalf of the participants that are in excess of the amounts they are entitled to receive, principally as a result of inaccurate information submitted by the participants, which was used to compute the housing assistance payment, resulting in unallowable costs.

Criteria

24 CFR 570.200 and OMB Circular A-87 establish the various allowable activities to be financed with federal funds.

24 CFR 792 also encourages public housing agencies ("PHAs") to investigate and pursue instances of tenant and owner fraud and abuse in the operation of the Section 8 housing assistance payments program.

Effects

The continued failure to collect the amounts owed by the participants may expose the Municipality to the possibility of being assessed penalties and interest costs on such amounts.

Cause

The above situation is the result of a lack of follow-up procedures and/or collection efforts that should be strengthened by the Municipality.

Questioned Costs

None, as these funds were questioned by previous auditors in the 2004 report.

Recommendation

The Municipality should continue with the process to collect the amounts owed. Such process should be in accordance with the program's laws and regulations.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Views of Responsible Officials

Management agrees.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-07

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Internal Control

Compliance requirements

Participant's eligibility

Financial reporting

Special tests and provisions - Housing quality standards inspections

Condition

The Municipality of San Juan does not have adequate internal controls over the following compliance requirements: participant's eligibility, financial reporting and housing quality standards inspections.

In testing compliance and internal controls over compliance for Section 8 Housing Choice Voucher Program we identified material instances of noncompliance over the abovementioned compliance requirements. The design of the procedures followed by the Program did not provide for the Municipality's personnel to prevent or timely detect these exceptions. For instances of noncompliance noted, refer to the following findings: 07-08 to 07-10.

Criteria

The A-102 Common Rule and OMB Circular A-110 require non-Federal entities receiving Federal awards (i.e., auditee management) to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Effects

The continued occurrence of this situation may cause the Municipality to be exposed to cost disallowances.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Cause

Although the Municipality's Administrative Plan for the Section 8 program covers policies and procedures that should be followed for each of the requirements described above, these policies are not always being followed. Procedures are sometimes overlooked and no proper monitoring exists to identify instances in which the adequate policies and procedures are not being followed.

Questioned Costs

None

Recommendation

The Municipality should verify the internal control policies and procedures they have and modify them in order to address weaknesses in their design. A continued education program and or adequate segregation of duties should be implemented to ensure that personnel in charge of this program have the adequate knowledge over the program regulations. Supervisory roles should also be strengthened to verify the effectiveness of the internal controls.

Views of Responsible Officials

Management agrees.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-08

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance / Internal Control

Compliance requirements

Eligibility

Condition

The Municipality must improve policies and procedures for determination of participants' eligibility.

In testing compliance and internal control over compliance with the requirement of participants' eligibility, we selected 40 participants who received HAP during FY 2006-07 to ascertain whether participants receiving HAP were eligible to participate in the program.

We noted the following instances of noncompliance and internal control deficiencies:

Annual reexamination procedures: In 2 of the 40 participants (5%) no annual reexamination was available on file.

Criteria

Annual reexamination procedures. 24 CFR 982.516 requires a PHA to conduct a reexamination of family income and composition at least annually. The Municipality's policies and procedures to comply with this requirement include that participants must sign, during the admission process, a form acknowledging of this requirement.

Effects

The continued occurrence of this situation may cause the Municipality admitting ineligible participants to receive program benefits and, therefore, be exposed to cost disallowances.

Cause

The above matter occurred because the Municipality's internal control over this compliance requirement is not effectively identifying and correcting these matters through the proper review of participants' files for completeness of documents, signatures and information, as well as for their accuracy.

Questioned Costs

\$10,157



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Recommendation

A complete and thorough analysis over the Municipality's procedures for participant's determination of eligibility should be made. These procedures should improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

Views of Responsible Officials

Management agrees.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-09

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance

Compliance requirements

Special tests and provisions — Housing quality standards inspections

Condition

Housing quality standards ("HQS") inspections:

As part of our procedures for testing compliance and internal control over compliance with the participant's eligibility requirement, we selected 40 participants and noted that for one case (2.5%) the Municipality did not comply with HQS as they were either not inspected. Total HAP payments made amounted to \$6,684.

Criteria

24 CFR 982.404 to 405 requires a PHA to inspect a unit leased to a family at least annually during assisted occupancy to determine if the unit meets the HQS. An owner of a unit leased under this program is required to maintain the unit in accordance with HQS, as defined by 24 CFR 982.4.

The PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days.

Effects

The Municipality might be incorrectly issuing housing assistance payments for sub-standard housing units which would otherwise be ineligible for participation under the Section 8 program.

Cause

The Municipality does not have adequate internal controls to ensure that HQS inspections procedures are in accordance with federal requirements. Major deficiencies noted included the following:

- Each time an inspection is made, the related information (including if it failed or passed, and the inspection date) is entered into the system and a report is prepared with the inspections due during a specified period. However, this report is not used by the Municipality to monitor that reinspections are done timely due to a lag in the processing of inspections in the system (i.e., system information is not updated).



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

- The number of employees working with the inspections appears to be inadequate considering the volume of units administered by the program. The Municipality has only three inspectors for approximately 4,000 units under the program.

Questioned Costs

\$1,671, excluding HAP's already questioned

Recommendation

The Municipality should perform a thorough analysis of the current HQS procedures and modify their design as deemed necessary to ensure that HQS inspections enforcement procedures are done as required by federal regulations.

Views of Responsible Officials

Management agrees.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-10

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance

Compliance requirements

Reporting — Financial Reporting

Condition

The Municipality is required to submit to HUD quarterly the Form HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement*. During our procedures over the correctness of the information provided in said report, we noted that the financial data submitted did not agree with the financial records of the Municipality as follows:

<u>Expenditures per report</u>	<u>Expenditures per General Ledger</u>	<u>Difference</u>
\$ 19,371,900	\$ 24,010,489	\$ (4,638,589)

Critera

HUD regulations require PHAs to submit form HUD-52681 to the HUD Financial Management Center. Among the information required to be presented on this form, the PHA must report the operating income, operating expenditures, and operating reserve of the PHA for the reporting period.

Effects

Failure to report accurate information prevents HUD from monitoring the performance of the program's financial activities, assessing the achievements of those programs and evaluating the expected grant award for the following years.

Cause

The Municipality does not have adequate internal controls in order to ensure that financial data used in reports submitted to federal awarding agencies is accurate.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Questioned Costs

None

Recommendation

The Municipality should design procedures to ensure that reports submitted to federal awarding agencies are both complete and accurate.

Views of Responsible Officials

Management agrees



Finding Number 07-11

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14 856

Category

Internal Control

Compliance requirements

Participant's eligibility

Financial reporting

Specials tests and provisions - housing quality standards inspections

Specials tests and provisions - housing quality standards enforcements

Condition

The Municipality does not have adequate internal controls over the following compliance requirements: participant's eligibility, financial reporting, utility allowance schedules, housing quality standards inspections and enforcements, and housing assistance payments. In testing compliance and internal control over compliance for the Lower Income Housing Assistance Program we identified material instances of noncompliance over the abovementioned compliance requirements. The design of the procedures followed by the Program did not provide for the Municipality's personnel to prevent or timely detect these exceptions. For instances of noncompliance noted, refer to the following findings: 07-12 to 07-15.

Criteria

The A-102 Common Rule and OMB Circular A-110 require non-Federal entities receiving Federal awards (i.e., auditee management) to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Effects

The continued occurrence of this situation may result in the Municipality being exposed to cost disallowances.

Cause

Although the Municipality's Administrative Plan for the Lower Income Moderate Housing Assistance — Section 8 Moderate Rehabilitation program covers policies and procedures that should be followed for each of the requirements described above, these policies and procedures are not always followed. Procedures are sometimes overlooked and no proper monitoring exists to identify instances in which the existing policies and procedures are not being followed.

Questioned Costs

None



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Recommendation

The Municipality should verify the internal control policies and procedures they have and modify them in order to address weaknesses in their design. A continued education program and an adequate segregation of duties should be implemented to ensure that personnel in charge of this program have the adequate knowledge over the program's regulations. Supervisory roles should also be strengthened to verify the effectiveness of the internal controls.

Views of Responsible Officials

Management agrees.



Finding Number 07-12

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Compliance / Internal Control

Compliance requirements

Eligibility

Condition

The Municipality must improve policies and procedures for determination of participant's eligibility.

In testing compliance and internal control over compliance with the requirement of participants' eligibility, reasonable rent, and housing assistance payments ("HAP"), we selected 25 participants who received HAP during fiscal year 2006-07 to ascertain whether participants receiving HAP were eligible to participate in the program and that HAP payments were reasonable and computed correctly.

For the 25 participants tested, we noted the following instances of noncompliance and internal control deficiencies:

- One (1) of the 25 participants files selected (4%) was not eligible to participate in the program since they did not include the family members' consent forms or federal release form authorizing the Municipality to examine documents to corroborate their status and income.
- *Participant application procedures.* For one (1) out of the 25 participants selected (4%), either the application form was not included in the participant's file (1 cases), or was not signed by the applicant (1 case). Total HAP payments made to these participants during fiscal year 2006-2007 amounted to \$15,864.

Other exception noted follows:

- *Annual reexamination procedures.* In one case (4%) the annual reexamination was not performed when due. We were unable to determine compliance with the abovementioned requirements as the Municipality could not provide us with the participant's file.

Criteria

Documentation and examination of participants' eligibility. 24 CFR 882.514 states that the PHA is responsible for the receipt and review of applications, and determination of family eligibility for participation in accordance with HUD regulations. To be eligible, the applicant must be a citizen or a noncitizen whom has eligible immigration status, and must be income-eligible.



MUNICIPALITY OF SAN JUAN
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FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

24 CFR 882.518 also covers situations in which the PHA must prohibit admission to the program to certain criminal offenders. The Municipality's policies and procedures in place to ascertain that no criminal offenders covered by this section are improperly admitted to the program include the requirement to applicants to submit a certificate of criminal record as part of their eligibility review.

Annual reexamination procedures. 24 CFR 882.515 requires a PHA to conduct a reexamination of family income and composition at least annually. The Municipality's policies and procedures to comply with this requirement include that participants must sign, during the admission process, a form acknowledging of this requirement.

Effects

The continued occurrence of this situation may result in the Municipality admitting ineligible participants to receive program benefits or making housing assistance overpayments and, therefore, be exposed to cost disallowances.

Cause

All of the above matters occurred because the Municipality's internal control over these compliance requirements are not effectively identifying and correcting these matters through the proper review of participants' files for completeness of documents, signatures and information, as well as for their accuracy.

Questioned Costs

\$4,438

Recommendation

A complete and thorough analysis over the Municipality's procedures for participant's determination of eligibility and HAP calculations should be made. The Municipality should ensure that all applicable requirements are being considered as part of these procedures and should also consider the development of a checklist that includes all the related documents and procedures that must be obtained and completed for each participant. The checklist should be completed during the initial processing and should be revised for changes during the annual review. Once completed, the participant files should then be reviewed for completeness by another official or supervisor prior to the final approval. These procedures should improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

Views of Responsible Officials

Management agrees.



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Finding Number 07-13

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Compliance

Compliance requirements

Special tests and provisions — Housing quality standards inspections
Special tests and provisions — Housing quality standards enforcement

Condition

Housing quality standards ("HQS") inspections:

In testing compliance and internal control over compliance with the HQS inspections, we selected 25 units for which an annual reinspection was due during the fiscal year 2006-07. During our test we noted instances of noncompliance in 2 of our selections (16%), as follows:

- For one (1) out of the 25 units selected for testing (4%), no inspection was made during the fiscal year 2006-07. Total HAP made to these participants amounted to \$5,376, excluding HAPs already questioned.

HQS enforcement:

As part of our procedures for testing compliance and internal control over compliance with the participant's eligibility requirement, we selected 25 participants and noted that:

- For one (1) of these 25 participants (4%), the inspections failed and the subsequent inspection to verify if the owner corrected the deficiencies previously notified was done after the required timeframe. The PHA identified that the owner failed to correct the deficiencies; however, in none of these cases (100%) the Municipality did not take any actions against these owners. Total HAPs made during FY 2006-07 for units that failed to meet HQS, after failed inspection date, amounted to \$10,752.

Criteria

24 CFR 982.404 and 405 require a PHA to inspect a unit leased to a family at least annually during assisted occupancy to determine if the unit meets the HQS. An owner of a unit leased under this program is required to maintain the unit in accordance with HQS, as defined by 24 CFR 982.4. If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous actions to enforce the owner's obligations.



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The PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days.

Effects

The Municipality might be incorrectly issuing housing assistance payments for sub-standard housing units which would otherwise be ineligible for participation under the Section 8 Moderate Rehabilitation program.

Cause

The Municipality does not have adequate internal controls to ensure that HQS inspections, and enforcement procedures are in accordance with federal requirements. Major deficiencies noted included the following:

- Each time an inspection is made, the related information (including if it failed or passed, and the inspection date) is entered into the system and a report is prepared with the inspections due during a specified period. However, this report is not used by the Municipality to monitor that reinspections are done timely due to a lag in the processing of inspections in the system (i.e., system information is not updated).

Questioned Costs

\$5,376, excluding HAPs already questioned.

Recommendation

The Municipality should perform a thorough analysis of the current HQS procedures and modify their design as deemed necessary to ensure that HQS inspections, and enforcement procedures are done as required by federal regulations.

Views of Responsible Officials

Management agrees.



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Finding Number 07-14

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Compliance

Compliance requirements

Reporting — Financial reporting

Condition

The Municipality is required to submit to HUD annually the Form HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement*. During our procedures over the correctness of the information provided in said report, we noted that the financial data submitted did not agree with the financial records, due to the PHA paid rent to landlord in excess of the corresponding amount for the month. Total rent paid in excess amounted to \$107,715. This amount was returned to HUD subsequent to June 30, 2007. The landlord also agreed to return the money to the Municipality subsequent to June 30, 2007. Although amount did not agree with the financial records of the Municipality as follows:

<u>Expenditures per report</u>	<u>Expenditures per General Ledger</u>	<u>Difference</u>
\$ 3,628,841	\$ 3,765,554	\$ (136,713)

Criteria

HUD regulations require PHAs to submit form HUD-52681 to the HUD Financial Management Center. Among the information required to be presented on this form, the PHA must report the operating income, operating expenditures, and operating reserve of the PHA for the reporting period.

Effects

Failure to report accurate information prevents HUD from monitoring the performance of the program's financial activities, assessing the achievements of those programs and evaluating the expected grant award for the following years.

Cause

The Municipality does not have adequate internal controls in order to ensure that financial data used in reports submitted to federal awarding agencies is accurate.



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Questioned Costs

\$107,715

Recommendation

The Municipality should design procedures to ensure that reports submitted to federal awarding agencies are both complete and accurate.

Views of Responsible Officials

Management agrees.



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Finding Number 07-15

Federal program

Lower Income Housing Assistance Program — Section 8 Moderate Rehabilitation, CFDA # 14.856

Category

Compliance

Compliance requirements

Reporting — Financial reporting

Condition

The Municipality did not submit during FY 2006-07 the Form HUD-40118, *Annual Progress Report ("APR")* for the Moderate Rehabilitation Single Room Occupancy projects.

Criteria

HUD regulations require PHAs to submit form HUD-40118 to the HUD within 90 days after the end of each operating year.

Effects

Failure to submit an APR may delay receiving grant funds and may result in a determination of lack of capacity for future funding.

Cause

Due to lack of personnel, this report has not been prepared and submitted to the HUD. Limited resources available have been used primarily for the operations of other types of assistance received from the Moderate Rehabilitation program.

Questioned Costs

None

Recommendation

Form HUD-40118 should be prepared immediately and submitted to the HUD.

Views of Responsible Officials

Management agrees.



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Finding Number 07-16

Federal program

Housing Opportunities for Persons with Aids, CFDA # 14.241

Category

Internal Control

Compliance requirements

Allowable costs
Cash management
Sub-recipient monitoring
Special Test – Housing quality inspections
Special Test: - HQS enforcement

Condition

The Municipality must improve its internal controls over the following compliance requirements: cash management participant's eligibility, subrecipient monitoring and housing quality inspections.

In testing compliance and internal controls over compliance for Housing Opportunities for Persons with Aids programs we identified material instances of noncompliance over the abovementioned compliance requirements. The design of the procedures followed by the Program did not provide for the Municipality's personnel to prevent or timely detect these exceptions. For instances of noncompliance noted, refer to the following findings: 07-17 to 07-20.

Criteria

The A-102 Common Rule and OMB Circular A-110 require non-Federal entities receiving Federal awards (i.e., auditee management) to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Effects

The continued occurrence of this situation may result in the Municipality being exposed to cost disallowances.

Cause

Although the Municipality's Administrative Plan for the HOPWA program covers policies and procedures that should be followed for each of the requirements described above, these policies are not always being followed. Procedures are sometimes overlooked and no proper monitoring exists to identify instances in which the adequate policies and procedures are not being followed.

Questioned Costs

None



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Recommendation

The Municipality should verify the internal control policies and procedures they have and modify them in order to address weaknesses on their design. A continued education program and or adequate segregation of duties should be implemented to ensure that personnel in charge of this program have the adequate knowledge over the program regulations. Supervisory roles should also be strengthened to verify the effectiveness of the internal controls.

Views of Responsible Officials

Management agrees



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Finding Number 07-17

Federal program

Housing Opportunities for Persons with Aids, CFDA # 14.241

Category

Compliance/Internal Control

Compliance requirements

Allowable Costs

Condition

In testing compliance and internal control over compliance with the requirement of participant's eligibility, we selected 40 participants who received HAP during FY 2006-07 to ascertain whether participants receiving HAP were eligible to participate in the program.

We noted the following instances of noncompliance and internal control deficiencies:

- In one case (2.5%) participant move out of the unit and the PHA continue the assistance payment until the end of year.

Criteria

End of participation: 24 CFR 982.311 establishes that if a family moves out of the unit, the PHA may not make any housing assistance payment to the owner for any month after the month when the family moves out.

Effects

The continued occurrence of this situation may cause the Municipality to make payments for unallowable activities and, therefore, be exposed to cost disallowances.

Cause

The above matter occurred because the Municipality's internal control over this compliance requirement is not effectively identifying and correcting these matters through the proper review of participant files for completeness of documents, signatures and information, as well as for their accuracy.

Questioned Costs

\$3.352



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Recommendation

A complete and thorough analysis over the Municipality's procedures for participant's determination of eligibility should be made. These procedures should improve controls and documentation concerning the eligibility of participants and will reduce the possibility of cost disallowances.

Views of Responsible Officials

Management agrees.



Finding Number 07-18

Federal program

Housing Opportunities for Persons with Aids, CFDA # 14.241

Category

Compliance

Compliance requirements

Special tests and provisions — housing quality standards inspections
Special tests and provisions — housing quality standards enforcement

Condition

Housing quality standards ("HQS") inspections:

In testing compliance and internal control over compliance with the HQS inspections, we selected 40 units for which an annual reinspection was due during the fiscal year 2006-07. During our test we noted instances of noncompliance in 2 of our selections (5%), as follows:

- No annual reinspections were made during the fiscal year 2006-07. Total HAP made to these participants amounted to \$9,744.

Housing quality standards ("HQS") enforcement:

In testing compliance and internal control over compliance with the HQS inspections, we selected 40 units for which an annual reinspection was due during the fiscal year 2006-07. During our test we noted instances of noncompliance in 2 of our selections (5%), as follows:

- The inspections failed and reinspections were done after the required timeframe. Total HAPs made during FY 2006-07 for units that failing to meet HQS, after reinspection date, amounted to \$910.

Criteria

24 CFR 982.404 and 405 require a PHA to inspect a unit leased to a family at least annually during assisted occupancy to determine if the unit meets the HQS. An owner of a unit leased under this program is required to maintain the unit in accordance with HQS, as defined by 24 CFR 982.4. If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous actions to enforce the owner obligations.

The PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days.



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Effects

The Municipality might be incorrectly issuing housing assistance payments for sub-standard housing units which would otherwise be ineligible for participation under the program.

Cause

The Municipality does not have adequate internal controls to ensure that HQS inspections, quality control, and enforcement procedures are in accordance with federal requirements. Major deficiencies noted included the following:

- Each time an inspection is made, the related information (including if it failed or passed, and the inspection date) is entered into the system and a report is prepared with the inspections due during a specified period. However, this report is not used by the Municipality to monitor that reinspections are done timely due to a lag in the processing of inspections in the system (i.e., system information is not updated).

Questioned Costs

\$10,654

Recommendation

The Municipality should perform a thorough analysis of the current HQS procedures and modify their design as deemed necessary to ensure that HQS inspections and enforcement procedures are done as required by federal regulations.

Views of Responsible Officials

Management agrees.



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Finding Number 07-19

Federal program

Housing Opportunity for Persons with AIDS, CFDA # 14 241

Category

Compliance / Internal Control

Compliance requirements

Allowable costs
Subrecipient monitoring

Condition

During our tests on compliance and internal controls over compliance with the subrecipients' monitoring requirement, we selected 23 subgrantees and noted the following deficiencies:

Awarding of funds

- One subrecipient was approved assistance during the fiscal year 2006-07 although he had not complied with the submission of single audit reports for prior award years.

Monitoring of funds

- For twenty three (23) of the 23 subrecipients examined (100%), we were not provided with evidence of the agreement between the Municipality and the subgrantee. No evidence was provided that the Municipality made these subrecipients aware of the award information and requirements pertaining to the program.
- For the 23 subrecipients examined (100%), no formal evidence exists of the review performed over single audit reports received and that such review was made within six months of their receipt, as required by Federal regulations. Total funds awarded to these subrecipients amounted to \$ 1,263,027.
- Latest single audit reports on file for 20 subrecipients reflected reportable conditions, material weaknesses and/or questioned costs. For 3 of these subrecipients (15%), the Municipality has neither received a corrective action plan nor sanctioned them due to noncompliance with this requirement.

Criteria

The requirements for subrecipient monitoring are contained in the Single Audit Act Amendments of 1996, Section .225 and .400(d) of the OMB Circular A-133, and Section .37 and .40(a) of A-102 Common Rule. These regulations establishes a pass-through entity is responsible for:

- *Award Identification.* At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.



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- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipients' fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

In addition, the A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (i.e., auditee management) to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Adequate internal controls should provide reasonable assurance that subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated.

Effects

Inadequate monitoring procedures may expose the Municipality to the risk that unallowable use of funds are not detected and corrected on a timely basis. Noncompliance could result in the loss of Federal funds. Additionally, program objectives may not be achieved, as timely monitoring of subgrantee performance is not adequately performed.

Cause

Although the Municipality's has in place various tools to approve and monitor subgrantees, such as proposals evaluation guides and checklists, and single audit requests forms to subrecipients, their use is not consistent. Procedures are sometimes overlooked and no proper monitoring exists to identify instances in which the adequate policies and procedures are not being followed.

In addition, during FY 2006-07 personnel previously assigned to the monitoring of HOPWA subrecipients were relocated to other functions. No resources were allocated to HOPWA program to cover these vacancies.

Questioned Costs

None



Recommendation

The Municipality should verify the internal control policies and procedures they have and modify them in order to address weaknesses in their design. Proper training to employees and established segregation of duties should be implemented to ensure that personnel in charge of this program have the adequate knowledge over the program regulations. Supervisory roles should be strengthened to verify the effectiveness of the internal controls. The following guidelines should be considered:

- Single audit reports should be obtained within the required time frame and its corresponding review should be performed and documented on a timely basis. The preparation of a review tool, such as a checklist is advisable. Management decisions resulting from this review should be clearly documented, as well as follow-up activities performed on single audit findings.
- Develop and implement policies to ensure that files are adequate and consistent and to ascertain that they include support for conclusions in monitoring reports. Subrecipient files should also include documentation on follow-up procedures performed on corrective action implementation.
- Develop a tracking system that alerts staff of approaching deadlines for reports and corrective action plans. Follow up aggressively to obtain acceptable corrective action plans in a timely manner. Subrecipient tracking documents should be developed and maintained for management decision and audit purposes.
- Review current monitoring guides to ensure that they include steps to obtain reasonable assurance that the subrecipients are complying with applicable Federal regulations. In addition, the Municipality should assign sufficient resources to enable the performance of adequate monitoring of the subrecipients, specifically for the programmatic area.

Views of Responsible Officials

Management agrees.



Finding Number 07-20

Federal program

Housing Opportunity for Persons with AIDS, CFDA # 14.241

Category

Internal Control/ Compliance

Compliance requirement

Cash Management/Monitoring

Condition

The Municipality did not monitor adequately the cash management procedures of the subrecipient since it is not minimizing the time elapsed between the receipt of funds and the final disbursements made to suppliers of the subrecipient.

Criteria

As per CFR 31 part 205.11, establish that a State and Federal Program Agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the State's payout of funds for Federal assistance program purposes, whether the transfer occurs before or after the payout of funds.

Effects

The cash management problem could result in fiscal deficiency for the sub-grantees since the Municipality does not minimize time elapsing between the transfer of funds.

Cause

The Municipality does not keep adequate cash management monitoring procedures because the Subrecipient has requested and received federal funds in excess of its immediate needs.

Recommendation

The Municipality should improve its monitoring procedures related to the cash management over subrecipients.

Questioned costs

None

Views of responsible officials

Management agrees



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Finding Number 07-21

Federal program

HOME Investment Partnership Program, CFDA # 14 239

Category

Compliance

Compliance requirements

Reporting

Condition

The Municipality did not submit during FY 2006-07 the Form HUD-60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low- Income Persons for Housing Construction Projects.

Criteria

HUD regulations require each recipient which directly receives financial assistance to submit form HUD-60002 for the purpose of determining the effectiveness of the project. It shall be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier.

Effects

Failure to submit an APR (annual performance report) may delay receiving grant funds and may result in a determination of lack of capacity for future funding.

Cause

This report has not been prepared and submitted to the HUD due to the Municipality considers that it does not apply to the program.

Questioned Costs

None.

Recommendation

Form HUD-60002 must be prepared and filed as required by HUD.

Views of Responsible Officials

Management agrees.



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Finding Number 07-22

Federal program

Community Development Block Grant/Entitlement Grants, CFDA #14.218,
Community Development Block Grant/Loan Guarantee Section 108, CFDA # 14.248

Category

Compliance

Compliance requirements

Davis-Bacon Act

Condition

During our examination of construction contracts we noted that they did not include a clause of the prevailing rate as required.

Criteria

The requirements of Davis Bacon are contained 29 CFR Part 5, A-102 Common Rule and OMB Circular A-110. Non federal entities shall include in their construction contracts subject to Davis Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction").

Effects

The Municipality can be exposed to actions from Federal grantors including disallowance of cost.

Cause

This situation was mostly caused do to the lack of update for applicable clauses on the construction contracts.

Questioned Costs

None

Recommendation

The Municipality contracts include a general clause in which they establish that the contractor should follow all federal and local regulations. We recommend the Municipality to include a more specific clause that construction contractors and subcontractors must comply with the abovementioned requirement.



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Views of Responsible Officials

Management agrees.



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Finding Number 07-23

Federal program

Community Development Block Grant/Entitlement Grants, CFDA #14.218
Community Development Block Grant/Loan Guarantee Section 108, CFDA # 14.248

Category

Compliance

Compliance requirements

Reporting

Condition

The Municipality did not submit during FY 2006-07 the Form HUD-60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low- Income Persons for Housing Construction Projects.

Criteria

HUD regulations require each recipient which directly receives financial assistance to submit form HUD-60002 for the purpose of determining the effectiveness of the project. It shall be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier.

Effects

Failure to submit an APR (annual performance report) may delay receiving grant funds and may result in a determination of lack of capacity for future funding.

Cause

This report has not been prepared and submitted to the HUD due to the Municipality considers that it does not apply to the program.

Questioned Costs

None.

Recommendation

Form HUD-60002 must be prepared and filed as required by HUD.

Views of Responsible Officials

Management agrees.



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Finding Number 07-24

Federal program

HIV Emergency Relief Project Grants, CFDA # 93.914

Category

Internal Control/Compliance

Compliance requirement

Allowable Cost/Cost Principles
Subrecipient Monitoring

Condition

To reinforce the accuracy of the reimbursement of funds, the Municipality has implemented a detailed preintervention process for its subgrantees disbursements. These procedures include, among others, a detailed examination of invoices provided by the subgrantee with copies of its related supporting documentation; which includes supplier's invoices, bank statements and bank reconciliations. This process is being performed and complied by subgrantees.

As part of the monitoring procedures, the Municipality performed fiscal and programmatic monitoring and we noted the following:

- Subrecipient monitories performed for program years 2003, 2004, 2006 and 2007 resulted in instances of noncompliance. Corrective action plans is in the process of discussion with subrecipients.

In addition, in eligibility of subgrantees we could not test procedures related to the awarding of funds to one subrecipient, because the file was not available for examination.

Criteria

- Section 400 (d) of OMB Circular A-133 establishes that the Municipality should: (a) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (b) ensure that subrecipients expending \$ 300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year; (c) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and time corrective action; and (d) consider whether subrecipient audit needs adjustment of the pass-through entity's records.
- In addition, internal controls should provide reasonable assurance that subrecipients activities are monitored, subrecipients audit findings are resolved, and the impact of any subrecipients noncompliance on the pass-through entity is evaluated.



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Effects

Inadequate financial monitoring procedures may expose the Municipality to the risk that unallowable uses of funds are not detected and corrected on a timely basis. Noncompliance could result in the loss of federal funds. Additionally, program objectives may not be achieved, as timely monitoring of subgrantees performance is not adequately performed.

Cause

The above conditions are primarily due to not performing ontime monitoring procedures of subrecipients fiscal operations. Other exceptions are the result of inappropriate follow up procedures on subgrantees compliance with agreement clauses.

Questioned Costs

None

Recommendation

- Assignment of sufficient resources to enable the performance of adequate monitoring of subrecipients.
- Timely site visits at the subrecipients locations to review financial records and observe operations should be performed.

Views of Responsible Officials

Management agrees



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Finding Number 07-25

Federal program

HIV Emergency Relief Project Grants, CFDA # 93.914

Category

Internal Control/ Compliance

Compliance requirement

Cash Management

Condition

The program did not maintain adequate audit trail to reconcile the funds received from the pass-through grantor with the disbursements issued by the program.

In addition, the desk reviews process for submitted by the sub grantees are taking excessive time. The reimbursement check delays several months after the original invoices of the surecipients are delivered to the Municipality.

Criteria

OMB Common Rule, Subpart C, Section 92.20 (b)(7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursements made by the grantee.

As per CFR 31 part 205.12 (5) establish, reimbursable findings means that a Federal Program Agency transfers Federal funds to a State that has already paid the funds for Federal Assistance program purposes. A State and Federal Program Agency must limit the amount of time the funds are transferred to the minimum required to meet a State's actual and immediate cash needs.

Effects

The Municipality is not in compliance with OMB Common Rule, Subpart C, Section 92.20 (b) (7).

The cash management problem could result in fiscal deficiency for the subgrantees since the Municipality does not minimize time elapsing of funds.

Cause

There are not adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

The Municipality does not have an efficient payment and disbursement process to subrecipients. It takes a lot of time since the subrecipient submits the invoices and all required documentation to the Municipality for reimbursement purposes and payment to subrecipients. This process requires a lot of time since the invoices are audited in the Municipality.

Recommendation

The Municipality should develop cash management system procedures in order to assure that funds requested are disbursed as required by the regulation.

The Municipality should establish procedures to pay the subgrantees on a monthly basis in order to minimize the time elapsed between the request of funds by the subrecipient and the ultimate disbursement of funds.

Questioned costs

None

Views of responsible officials

Management agrees



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-26

Federal program

Head Start — CFDA # 93 600

Category

Internal Control/ Compliance

Compliance requirement

Cash Management

Condition

Interest income was generated from federal funds deposited in the Municipality's bank account and was not returned on time.

Criteria

45 CFR Subtitle A Sec 92.21 establishes that the interest earned on advances shall be promptly, but at least quarterly remitted to the federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

Effects

The Municipality will have to refund the total amount of interest income to the federal government.

Cause

The Municipality understands that it is due to the fact that they do not perform cash transfers on a timely basis.

Recommendation

The Municipality should transfer federal funds to the general fund as soon as received in order for them to be available for the payment of obligations and interest income will not be generated.

Questioned costs

\$89,091

Views of responsible officials

Management agrees



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-27

Federal program

Head Start — CFDA # 93.600

Category

Internal Control/ Compliance

Compliance requirement

Reporting

Condition

Interest income was not reported in SF-272, for any of the four quarters and advances not disbursed were not included in the remarks section.

Criteria

OMB Circular A-110 Section 52 (a) (2) (iii), when practical and deemed necessary, federal awarding agencies may require recipients to report in the "Remarks" section the amount of cash advances received in excess.

Effects

Failure to report accurate information prevents HHS from monitoring the performance of the program's financial activities, assessing the achievements of those programs and evaluating the expected grant award for the following years.

Cause

The Municipality does not have adequate internal controls in order to ensure that financial data used in reports submitted to federal awarding agencies is accurate.

Recommendation

The Municipality should design procedures to ensure that reports submitted to federal awarding agencies are both complete and accurate.

Questioned costs

None



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Views of responsible officials

Management agrees.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007

Finding Number 07-28

Federal program

Community Service Block Grant (CSBG) — CFDA # 93.569

Category

Internal Control/ Compliance

Compliance requirements

Cash management

Condition

We observed that funds requested for two contracts were not disbursed. We also noted that subsequent to June 30, 2007 amounts were reimbursed to the federal program.

Criteria

The requirements for cash management are contained in the OMB Circular 102, A-102 Common Rule, OMB Circular A-110. Program costs of entities funded on a reimbursement basis, must be paid for by entity funds before reimbursement is requested from the Federal Government.

Effects

The continued occurrence of this situation may result in the Municipality being exposed to cost disallowances and to pay interest for failure of following the cash management requirements.

Cause

The program does not have adequate controls to ensure that expenditures are obligated and liquidated on a timely basis.

Questioned Costs

None

Recommendation

We recommend that the program should establish internal controls to ensure the timely liquidation of all obligations before requesting the reimbursement.

Views of Responsible Officials

Management agrees.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

PART VII

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007



MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2007
<u>Department of Housing and Urban Development (HUD)</u>		
Section 8 Housing Choice Vouchers	14.871	\$ 24,010,489
Community Development Block Grants/Entitlement Grants	14.218	12,176,715
HOME Investment Partnership Programs	14.239	6,099,848
Housing Opportunities for Persons with AIDS	14.241	6,759,770
Lower Income Housing Assistant Program-Section 8 Moderate Rehabilitation	14.856	5,042,190
Emergency Shelter Grants Program	14.231	343,187
Supportive Housing Program	14.235	1,103,804
Community Development Block Grants/Section 108 Loan Guarantees	14.248	11,762,737
Shelter Plus Care	14.238	156,078
Subtotal		67,454,818
<u>Department of Health and Human Services (HHS)</u>		
Head Start	93.600	27,650,627
HIV Emergency Relief Project Grants	93.914	11,697,042
Substance Abuse and Mental Health Services	93.243	589,467
Health Center Grants for Homeless Populations (HCH)	93.151	450,122
Family Planning	93.217	4,157
Pass-through from Commonwealth of Puerto Rico Families and Child Administration- Community Services Block Grant	93.569	3,927,322
Pass-through from Commonwealth of Puerto Rico Governor's Office- Special Programs for the Aging-Title III, Part C-Nutricion Services	93.045	1,000,859
Pass-through from Commonwealth of Puerto Rico-WESTAT- National Health Institute-WESTAT	93.990	1,024,065
Pass-through from Commonwealth of Puerto Rico Department of Education- Risk Reduction	93.941	246,022
Childhood Immunization Grants	93.268	655,258
Maternal and Child Health Services Block Grant to States	93.994	253,026
Mental Health Clinical and AIDS Services	93.244	105,569
Strengthening Families Program	93.556	123,779
Subtotal		47,727,315

See notes to Schedule of Expenditures of Federal Awards



MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2007
<u>Department of Labor (DOL)</u>		
Pass-through from Commonwealth of Puerto Rico Right to Employment Administration-		
	17 258,	
	17 259,	
Workforce Investment Act (WIA)	17.260	<u>8,078,533</u>
<u>Department of Justice (DOJ)</u>		
Public Safety Partnership and Community Policing Grants (COPS)	16.710	1,015,052
Drug Free Communities Support Programs Grants	16.729	873,773
Gang Resistance Education and Training (GREAT)	16.737	8,162
Community Prosecution Project Safe Neighborhoods	16.609	1,642,257
Pass-through from Commonwealth of Puerto Rico Department of Justice:		
Crime Victim Assistant	16.575	100,631
Alcohol, Tobacco and Firearms Training Assistance	16.012	<u>29,582</u>
Subtotal		<u>3,669,457</u>
<u>Department of Education (ED)</u>		
Federal Pell Grant Program (PELL)	84.063	1,911,119
TRIO Student Support Services	84.042	269,606
Supplementary Educational Opportunity Grants	84.007	47,478
Minority Science	84.120	3,217
Federal Work-Study Program (FWS)	84.033	<u>80,237</u>
Subtotal		<u>2,311,657</u>

See notes to Schedule of Expenditures of Federal Awards

MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF EXPENDITURES OF FEDERALE AWARDS - CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2007
<u>Department of Agriculture (USDA)</u>		
Pass-through from Commonwealth of Puerto Rico Department of Education- Child and Adult Care Food Program (CACFP)	10.558	<u>1,967,925</u>
<u>Corporation for National and Community Service</u>		
<u>Pass-through from Commonwealth of Puerto Rico Department of Health:</u>		
Foster Grandparent Program	94.011	455,096
Retired and Senior Volunteer Program	94.002	<u>83,097</u>
Subtotal		<u>538,193</u>
<u>Department of Homeland Security</u>		
Emergency Management Performance Grants	97.042	90,335
Homeland Security Grant Program	97.067	<u>767,049</u>
Subtotal		<u>857,384</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 132,605,282</u>

See notes to Schedule of Expenditures of Federal Awards



MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERALE AWARDS
 FOR THE YEAR ENDED JUNE 30, 2007

1. **Basis of Presentation**—The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality of San Juan, Capital City of Puerto Rico (the "Municipality"), and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality's government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, which conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounts of the Municipality are presented 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 equity, revenues and expenditures. Government resources are allocated to and accounted for by individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

A reconciliation of amounts included in the Schedule of Expenditures of Federal Awards to the other governmental funds column in the fund financial statements follows:

Schedule of expenditures of federal awards	\$ 132,605,282
Federal programs not included in other governmental funds	(11,762,737)
Component unit	1,916,425
Nonfederal programs included in the special revenue funds	<u>838,199</u>
	123,597,169
Total special revenue funds	29,042,141
Capital projects funds	<u>2,865,399</u>
Other special revenue funds	<u>155,504,709</u>
Other governmental funds column in the fund financial statements	<u>\$ 155,504,709</u>

2. **Catalog of Federal Domestic Assistance ("CFDA")** numbers are presented for programs for which such numbers are available.

3. **Reporting Entity**—The Municipality, for purposes of the supplementary Schedule of Expenditure of Federal Awards, includes all the funds of the primary government as defined by GASB Statement No. 14, *The Financial Reporting Entity*.



MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO

PART VIII

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS



MUNICIPALITY OF SAN JUAN, PUERTO RICO



Status of Prior Year 2005-2006
Single Audit Requirement
as of June 30, 2007

Finding Number	Finding Description	Questioned Costs	Status
Accounting and Finance Department			
06-01	Deficit in the Municipality's general fund at June 30, 2006.	\$ -	Situation still prevails. Refer to Finding 07-01 and related Corrective Action Plan
06-02	The Municipality is not canceling outstanding checks, which have been outstanding for a period in excess of six months.	-	Situation still prevails. Refer to Finding 07-02 and related Corrective Action Plan
06-03	Inactive and unnecessary funds and accounts are not closed.	-	Situation still prevails. Refer to Finding 07-03 and related Corrective Action Plan
06-04	The Municipality's payroll register cannot be reconciled with its corresponding general ledger payroll and benefits accounts.	-	Corrective Action Plan implemented with positive results.
06-05	Internal control over property management need to be strengthened.	-	Situation still prevails. Refer to Finding 07-04 and related Corrective Action Plan
All Federal Programs			
06-06	The Municipality does not prepare periodic certifications.	-	Situation still prevails. Refer to Finding 07-05 and related Corrective Action Plan
Section 8 Housing Choice Vouchers			
06-07	The Municipality should improve its collection efforts over its accounts receivable.	-	Situation has been corrected in part due to implementation of Corrective Action Plan. Refer to finding 07-06
06-08	The Municipality should improve internal control over its Section 8 Housing Choice Voucher Program.	-	Situation still prevails. Refer to Finding 07-07 and related Corrective Action Plan
06-09	The Municipality must improve policies and procedures for determination of participants eligibility.	-	Situation still prevails. Refer to Finding 07-08 and related Corrective Action Plan
06-10	The Municipality did not comply with federal requirements regarding the determination of housing assistance payments and lease approval.	-	Corrective Action Plan implemented with positive results.
06-11	The Municipality did not comply with federal requirements regarding the utility schedule.	-	Corrective Action Plan implemented with positive results.
06-12	The Municipality did not comply with federal requirements regarding housing quality standards inspections.	122,136	Situation has been corrected in part due to implementation of Corrective Action Plan. Refer to finding 07-09
06-13	The Municipality did not comply with federal requirements regarding housing quality standards enforcements.	14,571	Corrective Action Plan implemented with positive results.
06-14	Financial report submitted to HUD did not agree with the accounting records.	-	Situation still prevails. Refer to Finding 07-10 and related Corrective Action Plan
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation			
06-15	The Municipality should improve its internal control over its Lower Income Moderate Rehabilitation Program.	40,740	Situation still prevails. Refer to Finding 07-11 and related Corrective Action Plan
06-16	The Municipality must improve policies and procedures for determination of participants eligibility.	16,032	Situation still prevails. Refer to Finding 07-12 and related Corrective Action Plan
06-17	The Municipality did not comply with federal requirements regarding housing quality standards inspections and enforcements.	-	Situation still prevails. Refer to Finding 07-13 and related Corrective Action Plan
06-18	The Municipality did not comply with federal requirements regarding the utility allowance schedule.	-	Corrective Action Plan implemented with positive results.
06-19	Financial report submitted to HUD did not agree with the accounting records.	-	Situation still prevails. Refer to Finding 07-14 and related Corrective Action Plan
06-20	The Municipality did not submit the HUD 40118, Annual Progress Report.	-	Situation still prevails. Refer to Finding 07-15 and related Corrective Action Plan
06-21	The Municipality does not have adequate internal controls to ensure the current occupancy status of the units receiving program assistance.	-	Corrective Action Plan implemented with positive results.



MUNICIPALITY OF SAN JUAN, PUERTO RICO



Status of Prior Year 2005-2006
Single Audit Requirement
as of June 30, 2007

Finding Number	Finding Description	Questioned Costs	Status
Housing Opportunities for Persons with AIDS			
06-22	The Municipality must improve its internal control over its HOPWA funds.	-	Situation still prevails. Refer to Finding 07-16 and related Corrective Action Plan
06-23	The Municipality must improve policies and procedures for determination of participants eligibility.	-	Situation still prevails. Refer to Finding 07-17 and related Corrective Action Plan
06-24	The Municipality did not comply with federal requirements regarding housing quality standards inspections and enforcements.	-	Situation still prevails. Refer to Finding 07-18 and related Corrective Action Plan
06-25	The Municipality does not have adequate internal controls over the valuation of subgrantee proposals and monitoring subrecipients' activities.	-	Situation still prevails. Refer to Finding 07-19 and related Corrective Action Plan
Community Development Block Grant/Loan Guarantee Section 108			
06-26	The construction contracts do not include a Davis Bacon Act Clause.	-	Situation still prevails. Refer to Finding 07-22 and related Corrective Action Plan
HIV Emergency Relief Project Grants			
06-27	The Municipality must improve its subrecipients monitoring procedures.	-	Situation still prevails. Refer to Finding 07-24 and related Corrective Action Plan
Workforce Investment Act			
06-28	Accounting records do not provide sufficient information to determine compliance with the earmarking requirement.	-	Corrective Action Plan implemented with positive results.
CSBG			
06-29	The Municipality did not comply with federal requirements regarding cash management procedures.	-	Situation still prevails. Refer to Finding 07-28 and related Corrective Action Plan
		\$ 193,479.00	





MUNICIPALITY OF SAN JUAN

*Corrective Action Plan
Single Audit Requirements
as of June 30, 2007*

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Finding Number	Category	Condition Found	Management Response and/or Corrective Action		
			Management Response and/or Action	Assigned Responsibility	Expected Target Date
07-01	Internal Control	Deficit in the Municipality's general fund at June 30, 2007.	<p>During the year ended June 30, 2007, the Municipality implemented various financial and managerial measures to increase municipal revenues and collections, and control expenditures in order to assure that the deficit presented was minimized within a reasonable time period. As a result, the deficit was reduced from \$31.7M to \$30M.</p> <p>The Municipality has implemented an aggressive long term financial plan that will allow us to: (1) finish operations with excess of revenues over expenditures; (2) apply the excess of revenues to the accumulated deficit of 2005 which will be applied to the total deficit within a period of 10 years; (3) be in compliance with local law which establishes that an outstanding deficit must be amortized in a period no longer than 40 years.</p>	Department of Finance	Continuous
07-02	Internal Control	The Municipality is not canceling outstanding checks, which have been outstanding for a period in excess of six months.	<p>As part of the monthly reconciliation process, the Municipality identifies all outstanding checks over six months and adjusts the General Ledger to that effect.</p> <p>These checks will then be reissued with a written authorization from the payee, as they are requested.</p> <p>Although the bank is responsible of cancelling any check which has not been cleared within six months as is the Municipality's policy, we will increase efforts in order to ensure that the bank complies with this requirement.</p>	Department of Finance	June 2008
07-03	Internal Control	Inactive and or unnecessary funds and accounts are not closed.	<p>We will make the necessary adjustments to balances and properly close inactive funds that at the moment are active in our system and establish monthly closing procedures to maintain balances for active grants only.</p>	Department of Finance	June 2009
07-04	Internal Control	Internal control over property management needs to be strengthened.	<p>We are in the process of reviewing our financial information system in order to segregate our current property subsidiary into each program fund as required.</p>	Department of Finance	June 2009
07-05	Compliance / Internal Control	The Municipality does not prepare periodic certifications	<p>The Office of Human Resources of the Municipality of San Juan (OHR), sent written notifications to all departmental directors on April 25, 2006 and March 30, 2007 regarding the</p>	Human Resources Department	July 2008



MUNICIPALITY OF SAN JUAN
Corrective Action Plan
Single Audit Requirements
as of June 30, 2007

Finding Number	Category	Condition Found	Management Response and/or Corrective Action										
			Management Response and/or Action	Assigned Responsibility	Expected Target Date								
07-06	Compliance / Internal Control	The Municipality should improve its collection efforts over its accounts receivable.	<p>To address the deficiencies identified in this finding the Municipality adopted a procedure concerning owner or family debts. The procedure was established in section 17 of the administrative plan that was submitted and approved by HUD in 2006.</p> <p>Taking into consideration the corrective measures, the following table shows the amount of funds collected by calendar year:</p> <table border="1"> <thead> <tr> <th>Program Year</th> <th>Amount collected</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>\$36,413</td> </tr> <tr> <td>2006</td> <td>\$55,845</td> </tr> <tr> <td>2005</td> <td>\$87,351</td> </tr> </tbody> </table>	Program Year	Amount collected	2007	\$36,413	2006	\$55,845	2005	\$87,351	Department of Housing Voucher	Completed
Program Year	Amount collected												
2007	\$36,413												
2006	\$55,845												
2005	\$87,351												
07-07	Internal Control	The Municipality should improve its internal control over its Section 8 Housing Choice Voucher Program.	<p>We have implemented an Administrative Plan that includes the procedures established to address the lack of internal control. As a supplement to the Administrative Plan the following procedures were developed:</p> <ul style="list-style-type: none"> • Third Party Verification • Document review previous to Annual Reexamination • Document review during the Annual Reexamination • HQS inspection • Waiting List • HQS quality control • Correct voucher size <p>The Administrative Plan was approved by HUD. The corrective action for this finding is part of the CAP approved by HUD.</p>	Department of Housing Voucher	Completed								



MUNICIPALITY OF SAN JUAN
Corrective Action Plan
Single Audit Requirements
 as of June 30, 2007

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		
			Management Response and/or Action	Assigned Responsibility	Expected Target Date
07-08	Compliance / Internal Control	The Municipality must improve policies and procedures for determination of participant's eligibility.	<p>The Municipality will enhance the number of cases to be verified by the Quality Control Division of the Section 8 program and will implement changes to the existing information system. The new system under implementation will identify all cases due for reexamination and will be completed by June 2008.</p> <p>COMMENT RELATED TO SEMAP The two (2) questioned cases that represent 5% of the total sample were cancelled by the Municipality. Therefore we understand that we are in compliance with the requirement established by HUD under the SEMAP evaluation. According to the regulation if fewer than 5 percent of all PHA reexaminations are more than 2 months overdue, the Municipality is in compliance and a total of 10 points must be awarded.</p>	Department of Housing Voucher	Underway- June 2008
07-09	Compliance	The Municipality did not comply with federal requirements regarding housing quality standards inspections.	<p>The Municipality will enhance the number of cases to be verified by the Quality Control Division of the Section 8 program and will implement changes to the existing information system. The new system under implementation will identify all cases due for reexamination and will be completed by June 2008.</p> <p>COMMENT RELATED TO SEMAP The questioned case that represents 2.5% of the total sample was cancelled by the Municipality. Therefore we understand that we are in compliance with the requirement established by HUD under the SEMAP evaluation. According to the regulation if fewer than 5 percent of annual HQS inspections of units under contract are more than 2 months the Municipality is in compliance and a total of 10 points must be awarded.</p>	Department of Housing Voucher	Underway- June 2008
07-10	Compliance	Financial report submitted to HUD did not agree with the accounting records.	<p>The quarterly reports (VMS - FORM 52681) are used to inform the financial data of the PHA to present exclusively disbursements made to landlords and administrative expenses incurred on a monthly basis. This data is then used by HUD to give the PHA advances of housing payments. The accounting</p>	Department of Housing Voucher	Continuous



MUNICIPALITY OF SAN JUAN

Corrective Action Plan Single Audit Requirements as of June 30, 2007

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		
			Management Response and/or Action	Assigned Responsibility	Expected Target Date
07-11	Internal Control	The Municipality should improve its internal control over its' Lower Income Moderate Rehabilitation Program.	<p>We have implemented an Administrative Plan that includes the procedures established to address the lack of internal control. As a supplement to the Administrative Plan the following procedures were developed:</p> <ul style="list-style-type: none"> • Third Party Verification • Document review previous to Annual Reexamination • Document review during the Annual Reexamination • HOS inspection • Waiting List • HOS quality control • Correct voucher size <p>The Administrative Plan was approved by HUD. The corrective action for this finding is part of the CAP approved by HUD.</p>	Department of Housing Moderate	Completed
07-12	Compliance / Internal Control	The Municipality must improve policies and procedures for determination of participant's eligibility.	<p>We are in the process of implementing the same controls of the Housing Choice Voucher program into the Moderate Rehab program.</p> <p>The first step in the corrective action will include the verification of a random sample of 10% of the active client files for accuracy of rental calculations and for file completeness including the presence of HUD form 9886, and application forms. To verify the records new staff will be assigned to the Moderate Rehab program to perform file verification and other related duties.</p> <p>In addition the Municipality is implementing a new information system that will detect any participant that is due for reexamination.</p>	Department of Housing Moderate	June 2008
07-13	Compliance	The Municipality did not comply with federal requirements regarding housing inspections and standards	<p>We are in the process of implementing the same controls of the Housing Choice Voucher program into the Moderate Rehab program.</p>	Department of Housing Moderate	June 2008



MUNICIPALITY OF SAN JUAN

Corrective Action Plan Single Audit Requirements as of June 30, 2007

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		
			Management Response and/or Action	Assigned Responsibility	Expected Target Date
07-14	Compliance	Financial report submitted to HUD did not agree with the accounting records.	<p>To avoid the recurrence of the situation a new HQS Inspection Supervisor was named. This individual will be responsible of coordinating the implementation of the internal controls including the reinspection and HQS enforcement process.</p> <p>In addition the Quality Control Division will verify a random sample of the active client files for the presence of HQS inspections.</p> <p>As explained before, the Municipality is implementing a new information system that will detect any participant that is due for reexamination.</p> <p>The quarterly reports and daily entries in our accounting records will be prepared by our accounting personnel in the federal funds section to ensure that a reconciliation of both reports is made on a timely basis.</p> <p>The Municipality prepared and will submit the 40118 Annual Performance Report in compliance with the regulations.</p>	Department of Housing Moderate	April 2008
07-15	Compliance	The Municipality did not submit the HUD 40118, Annual Progress Report.	The policies and procedures have been revised to ensure proper compliance with the requirements in Circular A-110.	Department of Housing HOPWA	June 2008
07-16	Internal Control	The Municipality must improve its internal control over its HOPWA funds.	The Municipality will revise the current procedures concerning the cash management of the sub-recipients so that all funds disbursed are distributed to the corresponding suppliers on a timely basis. In addition, enforcement clauses will be added to the sub-recipients agreements to ensure full compliance of amounts disbursed.	Department of Housing HOPWA	Completed
07-17	Compliance / Internal Control	The Municipality must improve policies and procedures for determination of participants' eligibility.	In this case the participant abandoned the housing unit and all established procedures were followed for the disbursement of the subsequent housing payments. These procedures were approved by HUD and are consistent with regulation 24 CFR 574.	Department of Housing HOPWA	Completed
07-18	Compliance	The Municipality did not comply with federal requirements regarding housing quality standards inspections and	The Municipality is implementing a corrective action plan that includes the enforcement of the HAP contract and/or voucher when units fail HQS inspections: establish and implement procedures for tracking and documenting the results of failed	Department of Housing HOPWA	June 2008



MUNICIPALITY OF SAN JUAN
Corrective Action Plan
Single Audit Requirements
as of June 30, 2007

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		
			Management Response and/or Action	Assigned Responsibility	Expected Target Date
07-19	Compliance / Internal Control	The Municipality does not have adequate internal controls over the valuation of sub grantee proposals and monitoring sub recipients' activities.	<p>The Municipality has required a copy of the Single Audit with each sub-recipient proposal. This requirement has been implemented for the 2008-2009 HOPWA funding competition.</p> <p>Monitoring of funds:</p> <ul style="list-style-type: none"> - A new agreement was developed and was submitted to HUD for review. It is expected that this agreement will be used with the allocation of funding corresponding to program year 2008-2009. - An external contractor will provide technical assistance to HOPWA staff in the evaluation of the Single Audit reports. In addition technical assistance was requested to the federal affairs office regarding this matter. It is expected that all Single Audit reports are evaluated during the 2008-2009 competition. 	Department of Housing HOPWA	Continuous
07-20	Compliance / Internal Control	The Municipality did not monitor adequately the cash management procedures of the sub-recipient.	The Municipality will revise the current procedures concerning the cash management of the sub-recipients so that all funds disbursed are distributed to the corresponding suppliers on a timely basis. In addition, enforcement clauses will be added to the sub-recipients agreements to ensure full compliance of amounts disbursed.	Department of Housing HOPWA	June 2008
07-21	Compliance	The Municipality did not submit the Form HUD-60002 Annual Report.	The Municipality requested technical assistance from HUD regarding the submission of HUD Form 60002. This form is of new implementation and the Municipality was unaware of the requirement. To avoid the recurrence of the situation the HOME program of the Municipality will submit the form as required by the regulation.	Department of Housing HOME	July 2008



MUNICIPALITY OF SAN JUAN
Corrective Action Plan
Single Audit Requirements
as of June 30, 2007

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		Assigned Responsibility	Expected Target Date
			Management Response and/or Action	Corrective Action		
07-22	Compliance	The construction contracts do not include a Davis Bacon Act clause.	The Municipality has prepared an attachment (Additional Conditions) to be included with all CDBG and Section 108 construction agreements that will require that contractors comply with the requirement of wage determination and the prevailing rates. Specifically clauses 5 and 6 of the Additional Conditions address the deficiencies identified in the Single Audit.		Department of Housing CDBG	Continuous
07-23	Compliance	The Municipality did not submit the Form HUD-60002 Annual Report.	The Municipality requested technical assistance from HUD regarding the submission of HUD Form 60002. This form is of new implementation and the Municipality was unaware of the requirement. To avoid the recurrence of the situation the HOME program of the Municipality will submit the form as required by the regulation.		Department of Housing CDBG	Continuous
07-24	Compliance / Internal Control	The Municipality must improve its sub recipient monitoring procedures.	We are continuously reviewing our monitoring procedures in order to assure that each sub-recipient complies with the laws and regulations as required in each grant agreement. Such is the case, that because of our onsite visits and programmatic monitoring, we have observed deficiencies in their operations and have requested CAP to review their responses and/or actions to each finding.		AIDS Task Force HIV	Completed
07-25	Compliance / Internal Control	The Municipality did not maintain adequate audit trail to reconcile funds received.	All disbursements were reconciled and evidenced to the auditors. Taking into consideration the restrictions imposed by the Federal Government regarding these funds, the normal procedures that govern all regular disbursement transactions were not sufficient because of the details involved. Therefore, as of this current FY 2007-08, we revised the procedures to accommodate to the needs of this program and permit a more straight forward view of the audit trail.		AIDS Task Force HIV	Completed
07-26	Compliance / Internal Control	The Municipality did not comply with federal cash management requirements regarding procedures.	The amount of \$89,091 was sent to the Department of Health & Human Services to reimburse the amount of interest earned during FY 2006-07. We have taken measures to assure that our bank account does not generate interest earned on any balance available. We have also, established procedures to assure that if any interest earned is reflected in our accounts, the quarterly reports will be submitted with the interest balances and the amounts disbursed to the corresponding agency on a timely basis.		Head Start	Completed



MUNICIPALITY OF SAN JUAN

Corrective Action Plan Single Audit Requirements as of June 30, 2007

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		
			Management Response and/or Action	Assigned Responsibility	Expected Target Date
07-27	Compliance / Internal Control	Financial report submitted to HUD did not agree with the accounting records.	We have taken measures to assure that our bank account does not generate interest earned on any balance available. We have also, established procedures to assure that if any interest earned is reflected in our accounts, the quarterly reports will be submitted with the interest balances and the amounts disbursed to the corresponding agency on a timely basis.	Head Start	Completed
07-28	Compliance / Internal Control	The Municipality did not comply with federal requirements regarding cash management procedures.	We have established procedures to ascertain on a timely basis, that requests for funds are disbursed or returned if not required for the purpose stated.	CSBG	Completed