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"Hacia el San Juan Soñado"

**DEPARTAMENTO DE FINANZAS**  
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# MUNICIPALITY OF SAN JUAN CAPITAL CITY OF PUERTO RICO

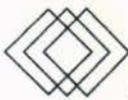
## OMB CIRCULAR A-133 AUDIT

As of and For the Fiscal Year Ended June 30, 2009  
and Independent Auditors' Report



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Aquino, De Córdoba, Alfaro & Co., LLP

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In accordance with Government Auditing Standards, we have also issued our report dated December 23, 2009, 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 provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 18, and the Budgetary Comparison Schedule – General Fund on pages 65 and 66 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. The 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 and individual 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 purpose of additional analysis, as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Government and Non-Profit Organizations*, and is not a required part of the basic financial statements. The supplementary information is the responsibility of the Municipality's management. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 23, 2009

*Aguiar, De Cordova, Affonso & Co. LLP*

Stamp No. 2484492 of the Puerto Rico  
Society of Certified Public Accountants  
has been affixed to the original report

## MANAGEMENT'S DISCUSSION & ANALYSIS



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The Management of the Municipality of San Juan (the "Municipality") provides the Municipality's comprehensive annual financial report and the discussion and analysis of the Municipality's financial performance during the fiscal year ended June 30, 2009.

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 increased approximately \$17.2 million.
- In the fund financial statements, total revenues decreased approximately \$21.2 million (or 3.1%) while total expenditures increased approximately \$33.5 million (or 4.6%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of deficit of approximately \$1.1 million.
- On a budgetary basis, the General Fund's actual expenditures were approximately \$2.8 million less than budgeted expenditures.
- The Municipality issued bonds and notes amounting to approximately \$28.7 million to finance an early 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 schedule) 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 sources. This is intended to summarize and simplify the users' 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 spendable 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 presented 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:

<b>Condensed Statements of Net Assets (In thousands)</b>				
<b>As of June 30,</b>				
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Pctg.</b>
<b>ASSETS</b>				
Capital assets	\$ 637,280	\$ 593,446	\$ 43,834	7.4%
Other assets	357,344	413,243	(55,899)	-13.5%
<b>Total assets</b>	<b>994,624</b>	<b>1,006,689</b>	<b>(12,065)</b>	<b>-1.2%</b>
<b>LIABILITIES</b>				
Current liabilities	248,266	260,840	(12,574)	-4.8%
Noncurrent liabilities	772,658	789,325	(16,667)	-2.1%
<b>Total liabilities</b>	<b>1,020,924</b>	<b>1,050,165</b>	<b>(29,241)</b>	<b>-2.8%</b>
<b>NET ASSETS</b>				
Invested in capital assets, net				
of related debt	202,598	203,410	(812)	-0.4%
Restricted for:				
Debt service	15,147	19,637	(4,490)	-22.9%
Other purposes	18,375	-	18,375	n/a
Unrestricted	(262,420)	(266,523)	4,103	-1.5%
<b>Total net assets</b>	<b>\$ (26,300)</b>	<b>\$ (43,476)</b>	<b>\$ 17,176</b>	<b>-39.5%</b>

The Municipality's total assets amounted to \$994.6 million at June 30, 2009, a decrease of \$12.1 million when compared with the prior year. The decrease in other assets is mainly the net effect result of: (i) a decrease in cash of approximately \$82.7 million mainly from the acquisition or construction of capital assets and infrastructure net of, (ii) an increase in property tax receivable of \$15.6 million and, (iii) an increase in loans receivable of approximately \$12.1 million from the transfer from the Independent Capital Fund to the Municipality. Additional detail regarding such transfer can be found in Note 19 on the financial statement.

The Municipality's total liabilities amounted to \$1,021 million at June 30, 2009, a decrease of \$29.2 million when compared with the prior year. The decrease is mainly due to the principal payments of long-term liabilities of approximately \$50.3 million net of the issuance of general obligation bonds of approximately \$28.7 million.



The largest portion of the Municipality's net assets is the negative unrestricted net assets. The net assets consist of the excess of assets over related liabilities that are neither externally neither legally restricted, neither invested in capital assets. These negative net assets are the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post closure 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 represent 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 (In thousands) For the Fiscal Years Ended June 30,				
	2009	2008	Change	Pctg.
<b>Program revenues:</b>				
Charges for services	\$ 58,068	\$ 53,142	\$ 4,926	9.3%
Operating grants and contributions	110,520	118,799	(8,279)	-7.0%
Capital grants and contributions	1,048	-	1,048	n/a
<b>General revenues:</b>				
Property taxes	214,652	217,728	(3,076)	-1.4%
Municipal license tax	156,033	149,947	6,086	4.1%
Sales Tax	54,646	54,799	(153)	-0.3%
Construction excise and other local taxes	28,570	47,896	(19,326)	-40.3%
Grants and contributions not restricted to specific programs	30,359	27,889	2,470	8.9%
Interest income	5,386	6,689	(1,303)	-19.5%
Other	4,419	7,982	(3,563)	-44.6%
<b>Total revenues</b>	<b>663,701</b>	<b>684,871</b>	<b>(21,170)</b>	<b>-3.1%</b>
<b>Expenses:</b>				
General government	109,022	130,922	(21,900)	-16.7%
Public safety	61,834	55,257	6,577	11.9%
Public works	78,205	73,779	4,426	6.0%
Culture and recreation	24,586	20,504	4,082	19.9%
Health and welfare	261,505	252,590	8,915	3.5%
Urban development	57,684	51,247	6,437	12.6%
Economic development	22,500	24,567	(2,067)	-8.4%
Education	16,075	12,595	3,480	27.6%
Interest on long-term debt	35,459	31,646	3,813	12.0%
<b>Total expenses</b>	<b>666,870</b>	<b>653,107</b>	<b>13,763</b>	<b>2.1%</b>
<b>Change in net assets before special item</b>	<b>(3,169)</b>	<b>31,764</b>	<b>(34,933)</b>	<b>-110.0%</b>
<b>Special item</b>	<b>20,345</b>	<b>-</b>	<b>20,345</b>	<b>n/a</b>
<b>Change in net assets</b>	<b>17,176</b>	<b>31,764</b>	<b>(14,588)</b>	<b>-45.9%</b>
<b>Net assets at beginning of year</b>	<b>(43,476)</b>	<b>(75,240)</b>	<b>31,764</b>	<b>-42.2%</b>
<b>Net assets at end of year</b>	<b>\$ (26,300)</b>	<b>\$ (43,476)</b>	<b>\$ 17,176</b>	<b>-39.5%</b>

The Municipality's total revenues decreased by approximately \$21.2 million. Approximately 68.4 percent (68.7 percent in 2008) of the Municipality's total revenue came from taxes, while approximately 21.4 percent (21.4 percent



in 2008) resulted from grants and contributions, including federal aid. Charges for services provided approximately 8.8 percent (7.8 percent in 2008) of the total revenues.

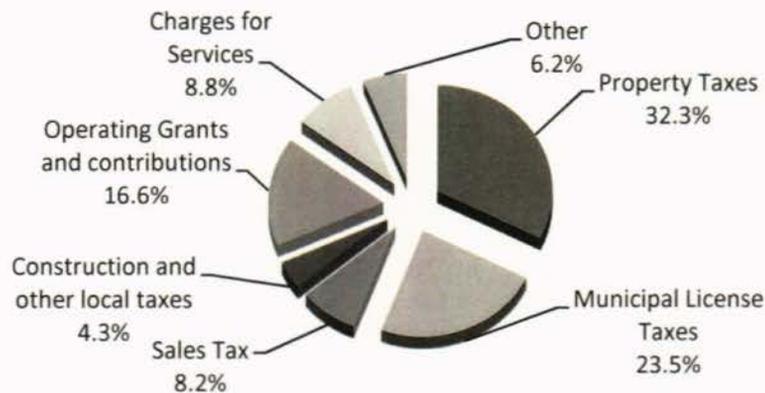
Revenues from property, municipal license and sales taxes increased by approximately 1 percent. Revenues from construction and other local taxes decreased by 40.3 percent due to the negative impact of the recession on investors to develop new commercial and residential projects.

Charges for services increased by approximately 9.3 percent when compared with prior fiscal year mainly due to an increase in health care service revenues.

The following charts summarize the Municipality's revenues by sources for the governmental activities for the fiscal years ended June 30, 2009 and 2008.

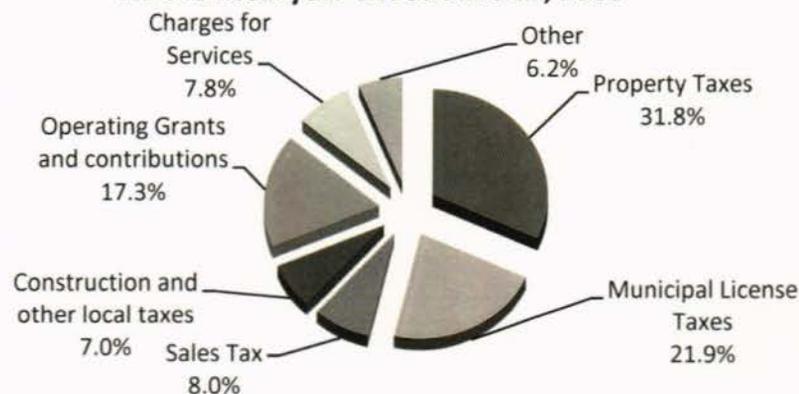
### Revenues by Source-Governmental Activities

for the fiscal year ended June 30, 2009



### Revenues by Source-Governmental Activities

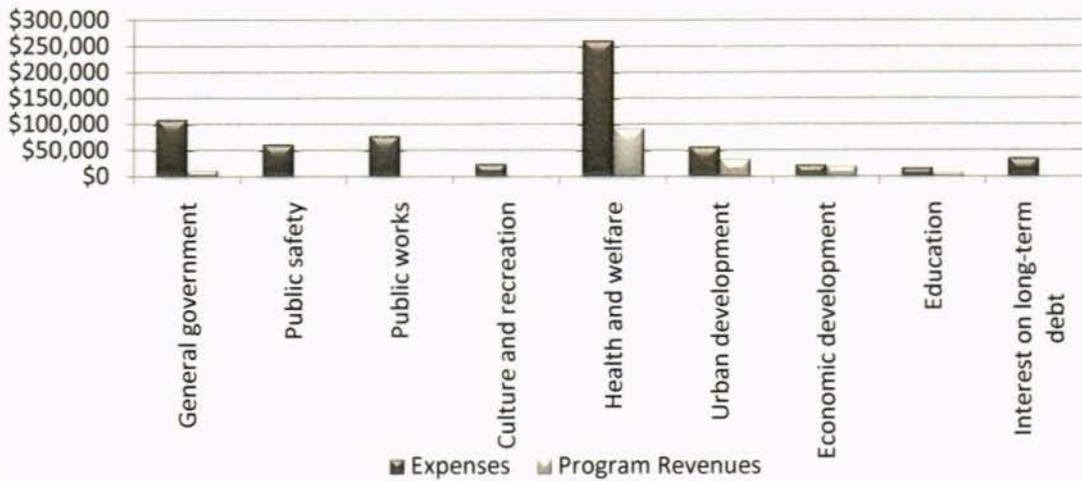
for the fiscal year ended June 30, 2008



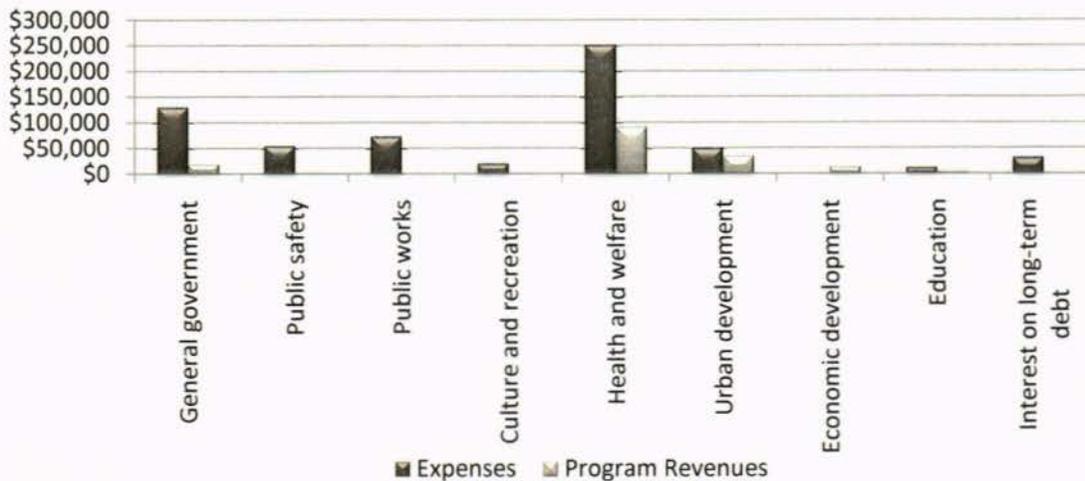
The Municipality's total expenses amounted to \$666.9 million and \$653.1 million for the fiscal years ended June 30, 2009 and 2008, respectively. Increase in total expenses was mainly due to the increases in salaries and fringe benefits approved to all Municipality's employees effective on July 1, 2008.

The following chart summarizes the Municipality's program revenues compared to program expenses for the governmental activities for the fiscal years ended June 30, 2009 and 2008.

**Expenses and Program Revenues-Governmental Activities  
for the fiscal year ended June 30, 2009 (In thousands)**



**Expenses and Program Revenues-Governmental Activities  
for the fiscal year ended June 30, 2008 (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 \$106.8 million, a net decrease of \$43.2 million in comparison with the prior year. The combined fund balances include nonspendable fund balances amounting to \$15.2 million at June 30, 2009. This is the portion of fund balances that cannot be spent readily with cash or is legally or contractually required not to be spent (\$2.9 million) in the General Fund or there are not expected to be converted in cash soon enough to affect the current period (\$12.3 million). There are restricted fund balances amounting to \$41.0 million. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes (\$11.8 million); 2) to pay for capital projects (\$14.1 million; and 3) to pay for debt services (\$15.1 million). There are committed fund balances amounting to \$79.1 million that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions 1) to pay for specific programs purpose (\$1.5 million) and; 2) to pay capital projects (\$77.6 million). Accordingly, since there is an excess of total fund balance over nonspendable, restricted and committed fund balances, a negative unassigned fund balance of \$28.5 million was reported in the governmental funds at June 30, 2009.

Within the governmental funds, it is included the general fund, which is the main operating fund of the Municipality. As of June 30, 2009 and 2008, the general fund has an accumulated deficit of \$18.4 million and \$19.5 million, respectively. Key factors in the decrease of general fund's deficit are as follows:

- ❖ Decrease of \$24.5 million in total expenditures.
- ❖ Decrease of \$11.2 million in total revenues.
- ❖ Net operating transfers of \$0.6 million from other funds

Decrease of \$11.2 million in total revenues was mainly due to the net effect of a decrease of approximately \$19.3 million and \$4.0 million in construction excise and other local taxes and sales tax, respectively; and an increase of \$6.0 million and \$4.7 million in municipal license tax and charge for services, respectively.

The Municipality moved aggressively to improve the collection efforts for municipal license taxes, construction excise taxes and sales taxes due to the implementation of a strategic plan to reduce tax evasion, better equipment and personnel training. The increase in charges for services was related with the increase in services provided and the establishment of a new sound and effective billing system. Nevertheless, the decrease in construction excise and other local taxes was related with the decrease of investors available to star new construction projects as a result of current recession.

The decrease of \$24.4 million in expenditures was mainly due to the difference between the current and prior year payment of approximately \$17.6 million for the early retirement program and \$21.0 million for bad debt expenditure related with receivable from property taxes, respectively; net of increases in other expenditures related with special programs such as materials, equipments, payroll and professional services in all governmental activities.

The net operating transfers of \$0.6 million represented a transfer of \$3.5 million from the Debt Service Fund to the General Fund by 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, and a transfer of \$1.5 million from the Independent Capital Fund to the General Fund as miscellaneous revenues. There were transfers out amounted to approximately \$4.4 million to federal programs to cover certain expenditures.

Governmental funds also include the Debt Service Fund. The fund balance of the Debt Service Fund as of June 30, 2009 and 2008 amounted to \$15.1 million and \$19.6 million, respectively. The net decreased of \$4.5 million in the fund balance of the Debt Service Fund is the result of a new portion of sales tax collected that are restricted for the Municipality Redemption Fund net of the above mentioned transfer to the general fund for operating purposes and principal and interest payments.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Municipal Council revised the Municipality's originally approved budget in order to include any changes in revenues that were identified during the course of the fiscal year based on current developments that affected the Municipality's finances. Changes in budgeted expenditures were also revised since the law mandates a balanced budget. During the year, there was an increase of approximately \$6.5 million in appropriations between the original and amended budget. The main component of the increase was to the Health Department for the expansion drugs and medicine programs and other medical related services.

There was an excess of expenditures over revenues on the budget of approximately \$0.5 million. However, as a result of the tighter controls imposed by the Municipality's management, actual expenditures were \$2.8 million under final budget.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

The Municipality's investment in capital assets as of June 30, 2009 and 2008 amounted to approximately \$637.3 million and \$593.4 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.

<b>Capital Assets, Net of Accumulated Depreciation (In thousands)</b>				
<b>As of June 30,</b>				
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Pctg.</b>
Land	\$ 93,425	\$ 93,425	\$ -	0.0%
Works of art	2,224	2,224	-	0.0%
Buildings and building improvements	232,912	223,291	9,621	4.3%
Site improvements	82,369	75,176	7,193	9.6%
Infrastructure	164,274	134,196	30,078	22.4%
Equipment and vehicles	8,480	7,509	971	12.9%
Intangible	382	765	(383)	-50.1%
Construction in progress	53,214	56,860	(3,646)	-6.4%
<b>Total</b>	<b>\$ 637,280</b>	<b>\$ 593,446</b>	<b>\$ 43,834</b>	<b>7.4%</b>



The increase in the Municipality's capital assets was 7.4 percent over last year. Actual expenditures to purchase or construct capital assets for the fiscal years ended June 30, 2009 and 2008 were \$77.1 million and \$43.0 million, respectively. Depreciation charges amounted to \$33.2 million and \$29.8 million for the fiscal years ended June 30, 2009 and 2008, 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, 2009 and 2008, the Municipality has approximately \$91.7 million and \$149.8 million, respectively, of unexpended proceeds from bond issuances that are restricted or committed to future construction activities.

Additional details regarding the Municipality's capital assets can be found in Note 7 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 debt limit margin of the Municipality as of June 30, 2009, was \$420.5 million. The Municipality's available legal debt margin as of June 30, 2009, was calculated by GDB to equal \$47.6 million after subtracting from the legal margin the amount of \$384.2 million in outstanding general obligation debt as of June 30, 2009, and adding to the legal margin the amount in its Redemption Fund of \$11.2 million as of June 30, 2009.

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 BBA/Stable/A-2 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.

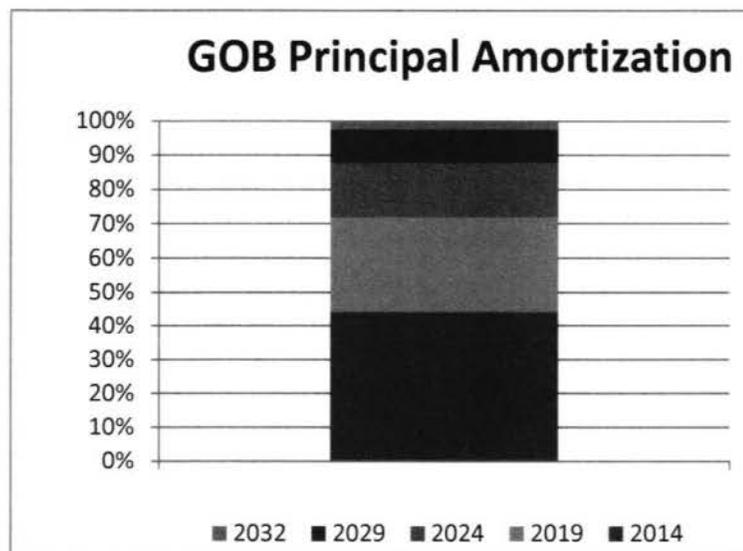
During fiscal year 2009, the Municipality issued bonds amounting to \$28.7 million to provide for the construction and equipment needs of the Municipality. General obligation debt includes bonds, notes and mortgage as shown in the table below:

<b>General Outstanding Debt (in thousands)</b>				
<b>As of June 30,</b>				
	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Pctg.</b>
Bonds payable	\$ 384,158	\$ 389,682	\$ (5,524)	-1.4%
Notes payable	230,781	243,287	(12,506)	-5.1%
Mortgage payable	4,490	4,778	(288)	-6.0%
Obligation under capital leases	-	657	(657)	-100.0%
<b>Total</b>	<b>\$ 619,429</b>	<b>\$ 638,404</b>	<b>\$ (18,975)</b>	<b>-3.0%</b>

At June 30, 2009, the Municipality had \$384.2 million of general obligation bonds outstanding. The following chart indicates the principal amortization of the Municipality's general obligation bonds in five-year increments.

<b>General Obligation Bonds Principal Amortization In Five Year Increments Following Fiscal Year 2009 (in thousands)</b>	
<b>Fiscal Years</b>	<b>Principal Amortization</b>
2010-2014	\$ 169,395
2015-2019	106,881
2020-2024	61,113
2025-2029	37,590
2030-2032	9,179
<b>Total</b>	<b>\$ 384,158</b>

As can be seen in the following chart, approximately 87.8% of the Municipality's outstanding general obligation bonds will be retired within the next fifteen (15) years.



The Municipality has various outstanding notes payable amounting to \$230.8 million at June 30, 2009. Those notes payable were mainly issued for the acquisition, construction or improvement of capital assets and for working capital purposes. These outstanding notes payable will be paid with unrestricted property tax revenues and financial resources arising from sales taxes recorded in the debt service fund. There were no notes payable issued during the fiscal year ended June 30, 2009.

Additional details regarding the Municipality's long-term debt can be found in Note 11 to the financial statements.

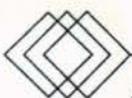
### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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 March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 7, known as the Fiscal Emergency Act, for the purpose of stabilizing the financial condition of the central government by requiring the implementation of a cost reduction program, including payroll cost. The broad effect of the implementation of these measures cannot be presently determined at June 30, 2009. These factors were considered when preparing the Municipality's budget for the 2009-2010 fiscal years.

### **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.sanjuan.pr](http://www.sanjuan.pr).

## BASIC FINANCIAL STATEMENTS



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Governmental  
Activities

**ASSETS**

Cash and cash equivalents	\$ 83,245,007
Cash with fiscal agent	153,293,048
Certificates of deposits	30,000,000
Accounts receivable:	
Property tax	28,974,533
Municipal license tax	4,034,775
Sales tax	4,587,321
Construction excise tax	3,400,805
Intergovernmental	21,702,081
Other	7,363,493
Loan receivables, net	12,063,927
Inventories	2,905,960
Deferred charges	2,321,266
Real estate held for sale	175,201
Restricted cash	3,276,830
Capital assets not being depreciated	148,862,820
Capital assets being depreciated, net	488,417,034
Total assets	<u>994,624,101</u>

**LIABILITIES**

Accounts payable and accrued liabilities	58,822,151
Intergovernmental payables	5,176,690
Deferred revenues:	
Municipal license tax	123,769,255
Federal grant revenues	9,673,045
Matured bonds and interest payable	50,824,845
Noncurrent liabilities:	
Due within one year	88,723,449
Due in more than one year	683,934,201
Total liabilities	<u>1,020,923,636</u>

**NET ASSETS**

Invested in capital assets, net of related debt	202,598,411
Restricted for:	
Debt service	15,147,110
Other purposes	18,374,640
Unrestricted	(262,419,696)
Total net assets	<u>\$ (26,299,535)</u>

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



Functions/Programs	Expenses	Program Revenues			Net Expense and Changes In Net Assets-Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$109,022,241	\$ 5,240,933	\$ 6,953,313	\$ 80,000	\$ (96,747,995)
Public safety	61,833,589	313,248	601,897	-	(60,918,444)
Public works	78,205,038	48,831	-	-	(78,156,207)
Culture and recreation	24,585,528	1,472,766	-	-	(23,112,762)
Health and welfare	261,505,290	41,950,959	50,088,078	967,853	(168,498,400)
Urban development	57,683,569	2,138,158	31,736,961	-	(23,808,450)
Economic development	22,500,025	3,718,771	16,118,711	-	(2,662,543)
Education	16,075,081	3,184,526	5,020,674	-	(7,869,881)
Interest on long-term debt	35,458,693	-	-	-	(35,458,693)
<b>Total governmental activities</b>	<b>\$666,869,054</b>	<b>\$ 58,068,192</b>	<b>\$110,519,634</b>	<b>\$ 1,047,853</b>	<b>(497,233,375)</b>

General revenues:

Property taxes	214,651,685
Municipal license tax	156,032,712
Sales tax	54,646,433
Construction and other local taxes	28,570,647
Grants and contributions not restricted to specific programs	30,358,872
Interest income	5,385,748
Other	4,418,667
Special item	20,344,821
<b>Total general revenues and special item</b>	<b>514,409,585</b>
Net change in net assets	17,176,210
Net assets at beginning of year	(43,475,745)
Net assets at end of year	<u>\$ (26,299,535)</u>

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

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 36,864,553	\$ -	\$ 46,380,454	\$ 83,245,007
Cash with fiscal agent	3,053,015	47,181,489	103,058,544	153,293,048
Certificates of deposits	30,000,000	-	-	30,000,000
Accounts receivable, net:				
Property tax	4,901,000	24,073,533	-	28,974,533
Municipal license tax	4,034,775	-	-	4,034,775
Sales tax	4,587,321	-	-	4,587,321
Construction excise tax	3,400,805	-	-	3,400,805
Intergovernmental	852,710	-	20,849,371	21,702,081
Other	6,772,477	-	591,016	7,363,493
Loans receivable, net	-	-	12,063,927	12,063,927
Due from other funds	50,734,731	-	611,482	51,346,213
Inventories	2,876,154	-	29,806	2,905,960
Real estate held for sale	-	-	175,201	175,201
Restricted cash	-	-	3,276,830	3,276,830
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$148,077,541</u>	<u>\$71,255,022</u>	<u>\$187,036,631</u>	<u>\$ 406,369,194</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 37,787,015	\$ -	\$ 21,035,136	\$ 58,822,151
Intergovernmental payables	4,968,527	-	208,163	5,176,690
Due to other funds	-	5,283,067	46,063,146	51,346,213
Matured bonds and interest payable	-	50,824,845	-	50,824,845
Deferred revenues:				
Municipal license tax	123,769,255	-	-	123,769,255
Federal grant revenues	-	-	9,673,045	9,673,045
Total liabilities	<u>166,524,797</u>	<u>56,107,912</u>	<u>76,979,490</u>	<u>299,612,199</u>
Fund balances (deficit):				
Nonspendable	2,876,154	-	12,268,934	15,145,008
Restricted	460,669	15,147,110	25,427,256	41,035,035
Committed	1,543,862	-	77,571,991	79,115,853
Unassigned	<u>(23,327,941)</u>	<u>-</u>	<u>(5,211,040)</u>	<u>(28,538,981)</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances (deficit)	<u>(18,447,256)</u>	<u>15,147,110</u>	<u>110,057,141</u>	<u>106,756,995</u>
Total liabilities and fund balances (deficit)	<u>\$148,077,541</u>	<u>\$71,255,022</u>	<u>\$ 187,036,631</u>	<u>\$ 406,369,194</u>

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



Total governmental fund balances		\$ 106,756,995
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	\$ 93,424,552	
Building and site improvements, net of depreciation	315,280,885	
Infrastructure, net of depreciation	164,274,014	
Equipment and vehicles, net of depreciation	8,479,596	
Works of art and intangible assets, net of depreciation	2,606,904	
Construction in progress	53,213,903	
Total		637,279,854
Deferred charges, net of accumulated amortization, are not available to pay for current period expenditures and, therefore, are deferred in the funds		
		2,321,266
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	(384,158,000)	
Mortgage payable	(4,489,969)	
Notes payable	(230,780,691)	
Compensated absences	(42,699,101)	
Net pension obligation	(77,170,676)	
Claims and judgments	(5,500,000)	
Landfill obligation	(18,900,000)	
Other liabilities	(8,959,213)	
Total		<u>(772,657,650)</u>
Total net assets of governmental activities		<u>\$ (26,299,535)</u>

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

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Property taxes	\$159,805,267	\$54,846,418	\$ -	\$ 214,651,685
Municipal license tax	156,032,712	-	-	156,032,712
Sales tax	45,657,179	8,989,254	-	54,646,433
Construction and other local taxes	28,570,647	-	-	28,570,647
Licenses and permits	352,825	-	-	352,825
Charges for services	50,946,376	-	2,138,158	53,084,534
Fines and forfeitures	4,634,041	-	-	4,634,041
Interest	4,906,971	2,555	476,222	5,385,748
Intergovernmental:				
Federal	-	-	105,430,925	105,430,925
Local	30,358,872	-	6,133,353	36,492,225
Other	2,537,993	-	1,880,674	4,418,667
Total revenues	<u>483,802,883</u>	<u>63,838,227</u>	<u>116,059,332</u>	<u>663,700,442</u>
<b>EXPENDITURES:</b>				
Current:				
General government	100,863,668	-	8,688,048	109,551,716
Public safety	56,664,100	-	1,285,988	57,950,088
Public works	72,619,368	-	2,608,635	75,228,003
Culture and recreation	15,358,606	-	1,459,673	16,818,279
Health and welfare	201,182,443	-	51,765,409	252,947,852
Urban development	3,647,602	-	45,687,925	49,335,527
Economic development	11,230,122	-	7,306,606	18,536,728
Education	9,517,729	-	5,814,346	15,332,075
Capital outlays	1,021,475	-	76,069,583	77,091,058
Debt service:				
Principal	4,387,592	39,964,000	3,272,639	47,624,231
Interest and other charges	6,878,879	24,864,518	3,715,296	35,458,693
Total expenditures	<u>483,371,584</u>	<u>64,828,518</u>	<u>207,674,148</u>	<u>755,874,250</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>431,299</u>	<u>(990,291)</u>	<u>(91,614,816)</u>	<u>(92,173,808)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from bonds issued	-	-	28,650,000	28,650,000
Transfers in	5,000,000	-	4,367,594	9,367,594
Transfers out	(4,367,594)	(3,500,000)	(1,500,000)	(9,367,594)
Total other financing sources (uses)	<u>632,406</u>	<u>(3,500,000)</u>	<u>31,517,594</u>	<u>28,650,000</u>
<b>SPECIAL ITEM:</b>				
Transfer from Independent Capital Fund	-	-	20,344,821	20,344,821
<b>NET CHANGE IN FUND BALANCES (DEFICIT)</b>	<u>1,063,705</u>	<u>(4,490,291)</u>	<u>(39,752,401)</u>	<u>(43,178,987)</u>
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	<u>(19,510,961)</u>	<u>19,637,401</u>	<u>149,809,542</u>	<u>149,935,982</u>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u><u>\$ (18,447,256)</u></u>	<u><u>\$ 15,147,110</u></u>	<u><u>\$ 110,057,141</u></u>	<u><u>\$ 106,756,995</u></u>

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



Net change in fund balances (deficit) - total governmental funds \$ (43,178,987)

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	\$ 77,091,058	
Current year depreciation	<u>(33,224,974)</u>	43,866,084

The net effect of various transactions involving capital assets (Note 7) (31,946)

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 proceeds	(28,650,000)	
Bond issue costs	141,139	
Principal repayments	<u>47,624,232</u>	19,115,371

Payments of certain long-term obligations are recorded as expenditures in the governmental funds, however, are recorded as a reduction of their respective long-term liabilities in the statement of net assets. 12,247,069

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Amortization of deferred charges		(287,439)
Claims and judgments		(1,760,475)
Compensated absences accrual		<u>(12,793,467)</u>
Change in net assets of governmental activities		<u>\$ 17,176,210</u>

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

**1. Organization and Reporting Entity**

**A. Organization**

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.

**B. 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 funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unit of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.
- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2009.

**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 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.

On March 2009, the Municipality adopted the provisions of GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).



GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles—related party transactions, going concern considerations, and subsequent events.

The adoption of GASB No. 55 and GASB No. 56 did not have retroactive cumulative effects affecting the accompanying financial statements as of July 1, 2008, and have not affected the financial positions and the results of operations reported as of and for the fiscal year ended June 30, 2009. Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund balances as of July 1, 2008.

**A. Government-wide (GWFS) and Governmental fund financial statements (GFFS)**

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 GWFS (i.e., the statement of net assets and the statement of activities) report information on all activities of the Municipality.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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.

The effects of all inter-fund activities (assets, liabilities, revenues, expenditures and other financing sources/uses among governmental funds) have been eliminated from the government-wide financial statements.

- 3) The GFFS (i.e., the balance sheet and the statement of revenues, expenditures and changes in fund balances) provide information about the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and are aimed to demonstrate the fiscal accountability and the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The focus of the GFFS is on major governmental funds, which represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, the Municipality's general fund is considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund would be classified as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

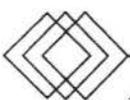
Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following governmental funds in the accompanying GFFS:

General Fund – is the Municipality's main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Debt Service Fund – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years.

The outstanding balance of certain general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension obligation and other long-term obligations) are only accounted for in the accompanying statement of net assets. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts. 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.

Special Revenue Funds - are non-major funds (reported within other governmental funds) used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal



requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

Capital Project Funds – are non-major funds (reported within other governmental funds) used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

- 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 the Notes to the Budgetary Comparison Schedule – General Fund.

**B. Measurement focus, basis of accounting and financial statement presentation**

**Government-wide financial statements** – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2009. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying Statement of Net Assets. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

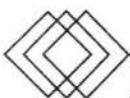
**Governmental fund financial statements** – The accompanying GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposit, intergovernmental grants and contributions and certain charges for services) to be available if collected within 90 days after June 30, 2009, except for property taxes for which the availability period is 60 days. At June 30, 2009, all revenue sources met this availability criterion.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits, and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange, exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, applicable.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2009.

The Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. At the same time, long-term liabilities



(generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

Modifications to the accrual basis of accounting include:

- 1) Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1, 2009, which are recorded as governmental fund liabilities at June 30, 2009 which is the date when resources were available in the debt service fund.
- 2) Obligations under capital leases, compensated absences, and the estimated liability for municipal solid waste landfill closure and post-closure care costs are recorded only when they mature (when payment is due).
- 3) Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable (unmatured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying Statement of Net Assets. Such liabilities are recorded in the governmental funds when they mature.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities, but are not recorded in the accompanying GFFS.

### **C. 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 composed of: (1) cash on hand, (2) demand deposits in commercial banks and in the Government Development Bank of Puerto Rico (GDB), and (3) certificates of deposit with original maturities of three months or less from the date of acquisition. Cash equivalents are recorded at amortized cost of \$30.0 million, which approximates fair value.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Government of Puerto Rico, deposited in GDB, 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 committed for the acquisition, construction or improvements of major capital facilities and other capital assets.

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

#### *2) Certificates of deposits:*

The Municipality's investment policy is to minimize credit and market risk while maintaining a competitive yield on its portfolio. The Municipality is authorized under Puerto Rico's law to invest in direct obligations or obligations guaranteed by the United States government or the Commonwealth of Puerto Rico, bank acceptances, other bank obligations and certificates of deposits in financial institutions authorized to do business under the United States and Commonwealth laws. The certificates of deposits are a nonparticipating interest-earning investment contracts with maturities of less than one year and are reported at cost, which approximates fair value.

#### *3) 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."

The carrying value of advances between funds, as reported in the fund financial statements, if any, are offsetted by nonspendable fund balances of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2009 since they are not expected to be converted to cash soon enough after the current fiscal year-end.

Receivables consist of all revenues earned but not collected at June 30, 2009. These account receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable. Intergovernmental receivables in the general fund represent mostly 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 which is restricted for the debt service.

Transactions in which the Municipality is willing to exchange an interest in its expected future cash flows from collecting specific receivables or specific future revenues for immediate cash payments, generally, a single lump sum are either regarded as a sale or as a collateralized borrowing resulting in a liability depending on its continuing involvement with those receivables or future revenues. Accordingly, a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the accompanying Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue is deferred and amortized, except when specific criteria are met.

4) *Inventories:*

Inventories in the GFFS have been recorded using the consumption method and are stated at the lower of cost (first-in, first-out method) or market. Inventories consist primary of supplies held for consumption and medicines used in providing health care services.

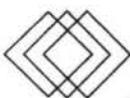
The carrying value of inventories are offsetted by nonspendable fund balances of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2009 since they are not expected to be converted to cash after the current fiscal year-end.

5) *Loans receivable and allowance for loan losses:*

Loans receivable in the GFFS are presented at the outstanding principal balance reduced by an allowance for loan losses. The carrying value of loans receivable are offsetted by nonspendable fund balance of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2009 since they are not expected to be currently converted to cash after the current fiscal year-end.

6) *Real Estate Held for Sale:*

Real estate held for sale are carried at the lower of fair value or cost, which is established by a third-party professional assessment or based upon an appraisal, minus estimated costs to sell. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense.



The carrying value of real estate held for sale are offsetted by nonspendable fund balance of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2009 since they are not expected to be currently converted to cash after the current fiscal year-end.

7) *Deferred charges:*

Deferred charges in the accompanying Statement of Net Assets consist of bond issuance costs, net of accumulated amortization of \$1.9 million. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

8) *Capital assets:*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the GWFS. 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.

Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2002 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

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.

Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation or amortization has been recorded for land, work of arts and construction in progress. The estimated useful lives of other major capital asset categories are:

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

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the public works and urban development functions.

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach.

Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

The Municipality classifies as capital leases all lease agreements that involve the transfer of substantially all benefits and risks inherent in the ownership of the leased property and meet one or more of the following four criteria: (1) by the end of the lease term, the ownership of the leased property is transferred to the Municipality, (2) the lease agreement contains a bargain purchase option, (3) the lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property and (4) at the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year, most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. Leases that meet at least one of the aforementioned four criteria and have a fiscal funding or a cancellation clause have been recorded as capital leases in the accompanying Statement of Net Assets, since the likelihood of invoking the provision is considered remote. The Municipality's lease agreements do not include contingent rental payments nor escalation clauses.

In the GWFS, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executory costs and profit thereon to be paid by the lessor. A portion of each minimum lease payment is allocated to interest expense.

In the GFFS, the net present value of the minimum lease payments at the inception of the capital lease is recorded simultaneously as: (1) expenditures and (2) other financing sources. Minimum lease payments are recorded as expenditures in the governmental fund.

Intangible assets at June 30, 2009, consist primarily of computer software.

9) *Deferred revenues:*

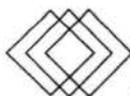
In the GFFS, deferred revenue arises when one of the following situations occur:

- a. Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2009 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

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

10) *Long-term obligations:*

The liabilities reported in the GWFS 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 GWFS as deferred charges and amortized over the term of the related debt using the straight-line method.

In the GFFS, 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.

11) *Compensated absences:*

The liability for compensated absences is reported in the Statement of Net Assets. A liability for compensated absences is reported in the fund financial statements only when matured (when payment is due), for example, as a result of employee resignations or retirements.

Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2009 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year) per employee up to a maximum of 60 days. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year) up to a maximum of 90 days. All vacation and sick leave days accumulated by employees in excess of 60 days and 90 days, respectively, are paid to employees each year, if not consumed, as required by law.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

12) *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.

13) *Estimated Liability for Municipal Solid Waste Landfill:*

The estimated liability for municipal solid waste landfill closure and post-closure care costs (including monitoring and maintenance) include an estimate of all post-closing care costs to be incurred after the close of the Municipality's solid waste landfill under the provisions of GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs* (GASB No. 18).

In the accompanying government-wide Statement of Net Assets, this liability was recognized over the useful life of the landfill prior to its closing in 2000, even though such costs are being incurred after the close of the landfill. The estimated of closing and post closing costs were determined using current

costs. The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

At the governmental funds' level, landfill closure and post-closure care costs are recorded in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds as expenditures in the accounting period in which the liability is incurred.

14) *Termination benefits:*

Termination benefits are accounted for under the provisions of GASB Statement No. 47, *Accounting for Termination Benefits*. Accordingly, the Municipality generally recognizes a liability and an expense for voluntary termination benefits (early-retirement incentives) in the accompanying GWFS when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) is generally recognized when a plan of termination has been approved by the Municipal Legislature, the plan has been communicated to the employees, and the amount can be estimated.

In the accompanying GFFS, liabilities and expenditures for termination benefits are generally recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Termination benefits for which the benefit terms establish an obligation to pay specific amounts on fixed or determinable dates are measured at the discounted present value of expected future benefit payments (including an assumption regarding changes in future cost levels during the periods covered by the employer's commitment to provide the benefits).

15) *Special item:*

Significant transactions or other events that are either unusual or infrequent in occurrence and are within the control of management are accounted for as special items and are reported separately from other revenues and expenses in the accompanying financial statements.

16) *Fund balances:*

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- b. *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a



- new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- c. *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
  - d. *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
  - e. *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2009.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue and capital project fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54. In addition, the financial positions and the results of operations reported in the accompanying GFFS as of and for the fiscal year ended June 30, 2009 have not been affected for this change in accounting principle. Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2008.

17) *Net Assets*

Net assets are classified in the accompanying Statement of Net Assets within the following four categories:

- a. *Invested in capital assets, net of related debt* – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.
- b. *Net assets restricted for debt service* – This net asset category consists of net resources restricted by bond indentures, debt covenants, and certain laws and regulations to cover the debt service payments of bonds and notes payable.
- c. *Net assets restricted for other purposes* – This net asset category consists of net resources externally restricted by creditors, grantors, contributors, laws and regulations to cover specific program purposes.
- d. *Unrestricted net assets* – Generally, this category consists of the excess of liabilities over related assets that are neither externally nor legally restricted, neither invested in capital assets.

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

18) *Interfund and intra-entity transactions:*

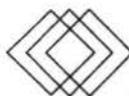
The Municipality has the following types of transactions among funds:

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

19) *Accounting for Pension Costs and Post-Employment Benefits:*

On July 1, 2007, the Municipality adopted the provisions of GASB Statement No. 50, *Pension Disclosures* (GASB No. 50), which amended GASB No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27) by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial



statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASB No. 27, the state government of the Government of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (the "System") and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government of Puerto Rico.

20) *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 for the fiscal year ended June 30, 2009 amounted to approximately \$10.1 million. The current insurance policies have not been cancelled or terminated. Workers' compensation insurance covering all municipal employees for the fiscal year ended June 30, 2009 amounted to approximately \$3.3 million.

21) *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.

22) *Accounting Changes:*

On July 1, 2008, the Municipality adopted the provisions of APB Opinion No. 20, *Accounting Changes*, as amended, to account for the accounting changes related to the adoption of GASB No. 54, GASB No. 55 and GASB No. 56 in the current fiscal year.

The financial positions and the results of operations reported in the accompanying GFFS as of and for the fiscal year ended June 30, 2009 have not been affected for the aforementioned changes in accounting principles. Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund equities as of July 1, 2008.

23) *Use of estimates:*

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.

24) *Reclassifications:*

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

25) *Future adoption of accounting pronouncements:*

The GASB has issued the following statements that have effective dates after June 30, 2009:

- a. GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for periods beginning after June 15, 2009.
- b. GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for periods beginning after June 15, 2009.
- c. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, 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 and certificates of deposits**

The Municipality's deposits at June 30, 2009 are composed of: (1) demand deposits in commercial banks (2) demand deposits in the Government Development Bank for Puerto Rico (GDB, fiscal agent) and (3) cash equivalents in commercial banks. Cash equivalents of \$30.0 million are certificates of deposits and are recorded at cost, which approximates fair value.

The Municipality follows the practice of pooling cash. At June 30, 2009, the pool cash account in commercial banks had a balance of \$83.3 million of which \$36.9 million, \$16.2 million, and \$30.2 million have been recorded in the general fund, the non-major capital project funds and the non-major special revenue funds, respectively. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations.

Under the laws and regulations of the Government of Puerto Rico, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Secretary of the Treasury of the Government of Puerto Rico, but not in the Municipality's name.

Cash in fiscal agent in the debt service fund consists principally of property and sales tax collections amounting to \$47.1 million that are restricted for the payment of the Municipality's debt service, as required by law. Cash in fiscal agent of \$3.1 million in the general fund consists mainly of contributions awarded by the Puerto Rico Electric Power Authority that are restricted for the acquisition, construction and improvement of certain minor infrastructure assets. Cash with fiscal agent amounting to recorded in other governmental funds for \$103.1 million consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvements of major capital facilities and other capital assets.

Cash in commercial banks in other governmental funds, amounting to \$46.4 million, represents the balance of interest and non-interest bearing accounts restricted to finance the operations of various federal and state funded programs. Restricted cash and cash equivalents in other governmental funds amounting to \$3.3 million represents mortgage escrow deposits, reserve for replacement and residual receipts deposited with the mortgagee.



Certificates of deposits recorded in the general fund had a balance of \$30 million and are nonparticipating interest-earning contracts with maturities of less than one year, which approximates fair value.

The Municipality follows the provisions GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2009:

- A. *Credit risk* – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2009, the Municipality has cash equivalents and investments of \$60.0 million consisting of certificates of deposits in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000. No investments in debt or equity securities were made during the fiscal year ended June 30, 2009. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits and certificates of deposits is considered low at June 30, 2009.
- B. *Interest rate risk* – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. At June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalent and certificates of deposits are considered low since the investment portfolio of the Municipality consists of certificates of deposits and do not include debt securities or any type of investments that could be affected by changes in interest rates.
- C. *Custodial credit risk* – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. The Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Government of Puerto Rico*, issued by the Government Development Bank for Puerto Rico as promulgated by Law No. 113 of August 3, 1995. Accordingly, the Municipality is only allowed to invest in obligations of the Government of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2009, the Municipality has balances deposited in commercial banks amounting to \$122.7 million which are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000. In addition, those public funds deposited in commercial banks are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Secretary of Treasury of the Government of Puerto Rico. Deposits of GDB, amounting to \$153.3 million (\$158.9 million bank balance) are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2009, the custodial credit risk associated with the Municipality's cash and cash equivalents and certificates of deposits are considered low.
- D. *Foreign exchange risk* – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. Accordingly to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of

investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

4. **Receivables**

A. **Property Tax**

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$15,000 (at 1957 market prices).

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (lien; levy date) and reporting such taxable value through a personal property tax return filed on May 15 (due date and collection date) subsequent to the assessment date. The total personal property tax rate in force at June 30, 2009 was 7.03 percent (of which taxpayers pay 6.83 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed every January 1 (lien; levy date) and are based on estimated current values of the property, deflated to 1957 market prices. Real property taxes are due and collectible on January 1 and July of every fiscal year. The total real property tax rate in force at June 30, 2009 was 9.03 percent (of which 8.83 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

Included within the total personal and real property tax rates, there is a portion of the tax rate in the amount of 1.40 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

The composition of property taxes receivable is as follows at June 30, 2009:

	General Fund	Debt Service Fund	Total
Property tax receivable	\$ 63,621,392	\$ 24,073,533	\$ 87,694,925
Less: allowance for doubtful accounts	(58,720,392)	-	(58,720,392)
Net property taxes receivable	<u>\$ 4,901,000</u>	<u>\$ 24,073,533</u>	<u>\$ 28,974,533</u>



#### **B. 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 Government 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, 2009, 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, 2009. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

#### **C. Sales Tax**

The Municipality imposes a sales and usage tax within the territorial limits of the Municipality pursuant to the Internal Revenue Code of the Government of Puerto Rico. This is a self-assessed tax consisting of one and a half percent (1.5%) 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 collected monthly in a tax return that is due twenty calendar days after the end of each month.

A portion of the sales tax amounting 0.2% is restricted for the payment of long-term debt and is recorded in the debt service fund. The remaining portion of 1.3% is recorded in the general fund since is available for general operating purposes.

Sale tax receivable represents sales tax levied that were collected subsequent to June 30, 2009, but pertaining to current year period.

#### **D. Construction excise tax**

The Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings and structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed at a five percent (5%) over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, project design and other engineering fees, licenses and permits, legal and accounting fees, and most marketing and advertising costs. The tax is paid by the taxpayer at the beginning of the project.

All single-family residential construction projects not related to housing development projects, condominiums, or any similar projects, are exempt from construction excise taxes for the first \$100,000 of the project construction costs. In addition, all single-family residential improvement projects are exempt from construction excise taxes for the first \$25,000 of the project improvement costs. All projects carried out on buildings and structures classified as historical treasures by the Puerto Rico Planning Board have an exemption of 3.75 percent (3.75%) in the tax rate applicable to construction excise taxes.

Construction excise tax receivable represents taxes that were collected subsequent to June 30, 2009, but pertaining to current year period.

**E. Intergovernmental Receivables**

The composition of intergovernmental receivables in the general fund at June 30, 2009 is:

Description	Amount
Puerto Rico Electrical Power Authority (PREPA)	\$ 498,686
State and Local intergovernmental grants and contributions	354,024
Total intergovernmental receivables	<u>\$ 852,710</u>

Amounts due from the PREPA represents the net receivable from the excess of contributions in lieu of taxes of \$27,191,850 charged by the Municipality over the actual electric power consumption expense/expenditure of \$26,693,164 charged by PREPA for the fiscal year ended June 30, 2009.

Intergovernmental receivables in other governmental funds represent principally uncollected reimbursements of expenditures incurred through the assignment of grants and contributions from the federal and local governments. Following is a detail of the intergovernmental receivables at June 30, 2009:

Description	Amount
HIV Emergency Relief Formula Grant	\$ 3,447,326
Community Services Block Grant	4,949,236
Community Development Block Grant	1,347,492
Head Start	5,982,573
Special Program for Aging – Title III	300,516
Workforce Investment Act	1,352,784
Supportive Housing Program	666,729
Risk Reduction	452,725
Childhood Immunization Grant	323,329
Emergency Shelter Grants	243,281
Housing Opportunities for Persons with AIDS	294,571
Others	1,488,809
Total	<u>\$ 20,849,371</u>

**F. Other**

Other accounts receivable as of June 30, 2009, net of allowance for doubtful account of \$1,464,058, are as follows:

	General Fund	Other Governmental Funds	Total
Medical Plans	\$ 5,776,524	\$ -	\$ 5,776,524
Rent	662,544	-	662,544
Other	333,409	591,016	924,425
Total other receivables	<u>\$ 6,772,477</u>	<u>\$ 591,016</u>	<u>\$ 7,363,493</u>



5. Loans Receivable

Loans at June 30, 2009 consist of the outstanding balance of credit facilities granted to private small business net of allowance for loan losses of \$345,571. The majority of these loans are collateralized or guaranteed by either first, second and third mortgage notes on real estate and/or chattel mortgage over machinery and equipment.

6. Interfund Transactions

Interfund receivables and payables at June 30, 2009 are summarized as follows:

A. Due from/to other fund

Receivable Fund	Payable Fund		Total
	Debt Service Fund	Other Governmental Funds	
General	\$ 5,283,067	\$ 45,451,664	\$50,734,731
Other Governmental Funds	-	611,482	611,482
Total	\$ 5,283,067	\$ 46,063,146	\$51,346,213

1) *Debt Service Fund:*

Act. No. 64 of 1996, as amended, authorized municipalities to withdraw from the debt service fund the excess of cash arising from the ad valorem taxes over the actual debt service requirements of bonds. As of June 30 2009, there were approximately \$5.3 million of such excess of cash recorded as due from other funds in the general fund.

2) *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, and (2) payments between funds are made.

B. Transfers in (out)

Transfers Out	Transfers In		Total
	General Fund	Other Governmental Funds	
General	\$ -	\$ 4,367,594	\$ 4,367,594
Debt Service	3,500,000	-	3,500,000
Other Governmental Funds	1,500,000	-	1,500,000
Total	\$ 5,000,000	\$ 4,367,594	\$ 9,367,594

In June 2009 the Municipality made a non-routine transfer of \$3.5 million from the debt service fund to the general fund for working capital purposes, as permitted by Act No. 64 of 1996. Also, in June 2009 the Municipality made a non-routine transfer of \$1.5 million from other governmental funds to the general fund for working capital purposes.

During the fiscal year ended June 30, 2009, the Municipality made routinary transfers of approximately \$4.4 million from the general fund to other governmental funds to finance as subsidies certain federal programs.

**7. Capital Assets**

Capital assets are primarily funded through the issuance of long-term bonds and notes. Capital assets activity for the fiscal year ended June 30, 2009 was as follows:

Governmental Activities:	Balance July 1, 2008	Reclassifications	Additions	Retirements and Adjustments	Balance June 30, 2009
Capital assets, not being depreciated:					
Land	\$ 93,424,552	\$ -	\$ -	\$ -	\$ 93,424,552
Works of art	2,224,365	-	-	-	2,224,365
Construction in progress	56,859,871	(28,878,192)	25,232,224	-	53,213,903
Total capital assets not being depreciated	152,508,788	(28,878,192)	25,232,224	-	148,862,820
Capital assets, being depreciated:					
Buildings and building improvements	349,336,233	14,529,178	9,117,078	-	372,982,489
Site improvements	150,341,897	12,720,906	2,136,999	-	165,199,802
Infrastructure	178,346,340	1,628,108	36,160,804	-	216,135,252
Equipment and vehicles	76,031,436	-	4,443,953	(2,488,000)	77,987,389
Intangible	3,825,426	-	-	-	3,825,426
Total capital assets being depreciated	757,881,332	28,878,192	51,858,834	(2,488,000)	836,130,358
Less accumulated depreciation for:					
Buildings and building improvements	(126,045,259)	-	(14,025,070)	-	(140,070,329)
Site improvements	(75,166,137)	-	(7,664,940)	-	(82,831,077)
Infrastructure	(44,150,148)	-	(7,711,090)	-	(51,861,238)
Equipment and vehicles	(68,522,516)	-	(3,441,331)	2,456,054	(69,507,793)
Intangible	(3,060,344)	-	(382,543)	-	(3,442,887)
Total accumulated depreciation	(316,944,404)	-	(33,224,974)	2,456,054	(347,713,324)
Total capital assets being depreciated, net	440,936,928	28,878,192	18,633,860	(31,946)	488,417,034
Governmental activities capital assets, net	\$ 593,445,716	\$ -	\$ 43,866,084	\$ (31,946)	\$ 637,279,854



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

<b>Governmental activities:</b>	<b>Amount</b>
General government	\$ 3,123,517
Public safety	1,742,716
Public works	1,788,289
Culture and recreation	7,233,174
Health and welfare	5,492,416
Urban development	8,147,692
Economic development	4,906,880
Education	790,290
Total depreciation expense – governmental activities	<u>\$ 33,224,974</u>

**8. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at June 30, 2009 are summarized as follows:

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Accounts payable	\$34,927,299	\$ 21,035,136	\$ 55,962,435
Accrued liabilities	2,859,716	-	2,859,716
Total	<u>\$37,787,015</u>	<u>\$ 21,035,136</u>	<u>\$ 58,822,151</u>

**9. Intergovernmental Payables**

Intergovernmental payables at June 30, 2009 are summarized as follows:

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Medical Services Administration	\$1,728,580	\$ -	\$ 1,728,580
Puerto Rico Aqueduct and Sewer Authority	838,596	46,246	884,842
Puerto Rico Employees Retirement System	2,365,653	-	2,365,653
Other	35,698	161,917	197,615
Total	<u>\$4,968,527</u>	<u>\$ 208,163</u>	<u>\$ 5,176,690</u>

**10. Deferred Revenues**

**A. Municipal License Tax**

The deferred revenues of approximately \$123.8 million in the general fund at June 30, 2009 relate to municipal license tax collected in fiscal year 2009 that will be earned in fiscal year 2010.

**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	\$ 5,116,336
HOME	2,235,492
Child and Adult Care Food Program	362,369
Law Enforcement Block Grant	248,467
Maternal Child and Health Services Block Grant	181,241
Others	1,529,140
<b>Total</b>	<b>\$9,673,045</b>

**11. Long-Term Debt**

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 389,682,000	\$ 28,650,000	\$ (34,174,000)	\$ 384,158,000	\$34,822,000
Mortgage payable	4,777,608	-	(287,639)	4,489,969	313,064
Notes payable	243,286,662	-	(12,505,971)	230,780,691	13,160,675
Obligations under capital leases	656,622	-	(656,622)	-	-
Compensated absences	34,235,572	12,793,467	(4,329,938)	42,699,101	4,000,000
Net pension obligation	79,092,904	-	(1,922,228)	77,170,676	30,079,497
Claims and judgments	5,500,000	1,760,475	(1,760,475)	5,500,000	1,000,000
Landfill obligation	19,800,000	-	(900,000)	18,900,000	900,000
Other liabilities	12,293,641	-	(3,334,428)	8,959,213	4,448,213
<b>Total</b>	<b>\$ 789,325,009</b>	<b>\$ 43,203,942</b>	<b>\$ (59,871,301)</b>	<b>\$ 772,657,650</b>	<b>\$ 88,723,449</b>

Historically, the general fund has been used to liquidate long-term liabilities other than debt (i.e. compensated absences, obligations under capital leases, claims and judgments and other liabilities).

**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, 2009 amounted to approximately \$4.2 billion. Long-term debt, except for the bonds payable, mortgage payable and certain notes 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 2009, the Municipality issued bonds for approximately \$28.7 million. Bonds payable outstanding at June 30, 2009 are as follows:



Description	Outstanding Amount
2009 general obligation bonds for the acquisition of various capital assets with an original amount of \$7.0 million due in annual installments of \$800,000 to \$1,230,000, through July 1, 2015; with interest ranging from 4.75% to 7.5%	\$ 6,210,000
2009 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$16.9 million due in annual installments of \$430,000 to \$1,585,000, through July 1, 2027; with interest ranging from 4.75% to 7.5%	16,485,000
2008 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$4.7 million due in annual installments of \$175,000 to \$500,000, through July 1, 2023; with interest ranging from 2.43% to 7.5%	4,550,000
2008 general obligation bonds for the second payment of the early retirement termination benefit with an original amount of \$20.0 million due in annual installments of \$305,000 to \$1,635,000, through July 1, 2032; with interest ranging from 3.93% to 7.25%	19,365,000
2008 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$4.7 million due in annual installments of \$70,000 to \$390,000, through July 1, 2032; with interest ranging from 3.93% to 7.25%	4,580,000
2008 general obligation bonds for the acquisition of various capital assets with an original amount of \$10.9 million due in annual installments of \$1,245,000 to \$1,900,000, through July 1, 2014; with interest ranging from 3.93% to 7.25%	8,275,000
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%	12,765,000
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%	21,433,000
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%	705,000
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%	3,080,000

Description	Outstanding Amount
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%	16,505,000
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%	2,890,000
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%	15,785,000
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%	7,335,000
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%	17,985,000
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%	10,210,000
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%	565,000
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%	47,485,000
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%	4,265,000
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%	13,495,000



Description	Outstanding Amount
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%	41,005,000
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%	26,290,000
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%	36,075,000
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%	29,555,000
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%	11,815,000
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%	<u>5,450,000</u>
Total	<u>\$384,158,000</u>

These bonds are payable from the special ad valorem property tax of two percent (2.0%), which is restricted for debt service and retained by GDB for such purposes.

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

According to sections 103 and 148 to 150 of the U.S. Internal Revenue Code and sections 1.148 to 1.150 of the U.S. Treasury Regulation, the Municipality's the tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2009, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

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

Year ending June 30,	Principal	Interest
2010	\$ 34,822,000	\$ 23,042,770
2011	36,613,000	21,040,429
2012	34,021,000	18,899,454
2013	35,266,000	16,916,878
2014	28,673,000	14,851,706
2015 – 2019	106,881,000	50,410,277
2020 – 2024	61,113,000	26,831,034
2025 – 2029	37,590,000	8,915,450
2030 – 2032	9,179,000	3,222,000
Total	<u>\$ 384,158,000</u>	<u>\$ 184,129,998</u>

**C. Mortgage Payable**

The mortgage loan payable with an original amount of \$7.0 million 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
2010	\$ 313,064	\$ 369,637
2011	340,736	341,965
2012	370,854	311,847
2013	403,633	279,067
2014	439,312	243,390
2015 – 2019	2,622,370	563,550
Total	<u>\$ 4,489,969</u>	<u>\$ 2,109,456</u>

**D. Notes Payable**

During September 2002, the Municipality entered into a repayment agreement with the GDB and CRIM to repay a debt of \$27.4 million. The principal and interest payments are due on July 1 of each year through July 1, 2032. The outstanding balance as of June 30, 2009 approximates \$24.6 million. The repayment agreement is payable in monthly installments of \$168,685 from unrestricted property tax revenues and bears interest at a fixed interest rate of 6.19%.

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% (1.85% at June 30, 2009) and is payable semi-annually ranging from \$.06 to \$2.9 million, and matures at various dates through July 1, 2029. The outstanding balance as of June 30, 2009 approximates \$36.0 million. This note will be repaid from unrestricted property tax revenues.



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% (1.85% at June 30, 2009). The outstanding balance as of June 30, 2009 approximates \$9.7 million. The proceeds of the note were used principally to pay debt incurred in prior years. This note will be repaid from unrestricted property tax revenues.

During June 2006, the Municipality issued a note payable to GDB 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 (1.85% at June 30, 2009). The outstanding balance as of June 30, 2009 approximates \$29.0 million. The proceeds of the note were used principally to pay debt incurred in prior years. This note will be repaid from unrestricted property tax revenues.

During January 2008, the Municipality issued a special obligation note (SON-A) for \$36.1 million. The SON-A is payable in annual installments through July 2014 ranging from \$5.1 to \$7.0 million and will bear interest at 90-day LIBOR plus 1.25 percent with a minimum of 5% and maximum of 12% (1.85% at June 30, 2009). The proceeds of the SON-A were used principally to infrastructure capital outlays. The outstanding balance as of June 30, 2009 approximates \$31.0 million. The SON-A will be repaid through sales tax revenues pledge and account for in the Municipality Redemption Fund.

During January 2008, the Municipality issued a special obligation note (SON-B) for \$37.1 million. The SON-B is payable in annual installments through July 2032 ranging from \$.06 to \$3.1 million and will bear interest at 90-day LIBOR plus 1.25 percent with a minimum of 5% and maximum of 12% (1.85% at June 30, 2009). The proceeds of the SON-B were used principally to the construction of various capital facilities and other capital assets. The outstanding balance as of June 30, 2009 approximates \$36.5 million. The SON-B will be repaid through sales tax revenues pledge and account for in the Municipality Redemption Fund.

In addition, the Municipality entered into a loan agreement with the US Department of Housing and Urban Development under a Variable Rate Note Guarantee 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. The borrowings have an outstanding balance of approximately \$64.0 million and are payable in annual installments ranging from \$2.7 to \$6.3 million, mature at various dates through July 2022 and bear interest at 0.2% over 90-day LIBOR (0.80% at June 30, 2009). This loan agreement will be repaid from future grant awards received from the Community Development Block Grants (CDBG) program.

The maturities of notes payable are as follows:

Year ending June 30,	Principal	Interest
2010	\$ 13,160,675	\$ 13,653,671
2011	14,005,436	12,859,890
2012	14,835,556	12,004,234
2013	15,751,355	11,093,773
2014	16,660,174	10,115,926
2015 – 2019	45,110,256	40,551,052
2020 – 2024	53,553,169	25,907,076
2025 – 2029	41,178,266	12,787,398
2030 – 2032	16,525,804	2,689,947
Total	<u>\$ 230,780,691</u>	<u>\$ 141,662,967</u>

**E. 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. During the current year, the lease obligation was settled.

**F. Compensated Absences**

The government-wide statement of net assets includes approximately \$22.1 million, \$17.6 million and \$3.0 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.

**G. Net Pension Obligation**

The amount reported as net pension obligation of approximately \$77.2 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 described in Notes 12 and 13, respectively. The net pension obligation has been recorded as a liability in governmental activities in the accompanying Statement of Net Assets.

**H. Landfill Obligation**

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In December 2000, the Municipality's landfill facilities were closed. Based on current costs, the preliminary annual estimate of postclosure costs has been assessed to be approximately \$900,000 for a period of approximately 21 years. The balance of postclosure costs of \$18.9 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.

**I. Other Liabilities**

Other liabilities represent a reserve of \$2.1 million for possible claims arising from federal cost disallowances as a result of prior audits of federal financed program, \$4.8 million in connection with a project to establish a land information management system and \$2.0 million in other miscellaneous liabilities.

**12. Pension Plan**

Employees of the Municipality participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the "System"). The System is cost-sharing multi-employer defined benefit pension plan sponsored by the Government of Puerto Rico under the terms of Act No. 447 of 1951, as amended (Act No. 447). 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 by Act No. 447 to contribute 9.275% of its employees' gross salaries.

On September 24, 1999, an amendment to Act No. 447, 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 Government 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.

The authority under which the funding policy and the obligations to contribute to the System and System 2000 by the plans' members, employers and other contributing entities (i.e., state or municipal contributions), are established or may be amended by law by the House of Representatives, the Senate and the Governor of the Government of Puerto Rico

### **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, 2009 amounted to approximately \$12.5 million. The Municipality's contributions during the years ended June 30, 2009, 2008 and 2007 amounted to approximately \$13.8 million, \$10.5 million, and \$11.9 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 to fund the retroactive adjustment related to the changes.

Additional information on the System is provided in its financial statements for the year ended June 30, 2008, a copy of which can be obtained from the Employees' Retirement System of the Government 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 fiscal year ended June 30, 2009, is as follows:

	Amount
Annual required contribution and pension cost	\$ 13,813,183
Employer contributions made	<u>(15,735,411)</u>
Decrease in net pension obligation	(1,922,228)
Net pension obligation, beginning of year	<u>5,766,683</u>
Net pension obligation, end of year	<u>\$ 3,844,455</u>

**13. Early Retirement Plan**

In addition to the pension benefits described above, the Municipality offered a voluntary early retirement program (the Program) in accordance to Municipal Resolution No. 41, Series 2006-2007. This Program was offered to employees who currently participate 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 12 of these financial statements. Nine hundred fifty-four (954) employees elected to participate in the Program.

The cost of the Program was approximately \$117.9 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 \$117.9 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	\$ 26,984,049	22.5%	\$ 26,984,049	\$ -
2008	17,598,293	15.0%	17,598,293	-
2009	-	0.0%	-	-
2010	28,157,269	24.0%	-	28,157,269
2011	23,464,391	20.0%	-	23,464,391
2012	21,704,561	18.5%	-	21,704,561
	<u>\$ 117,908,563</u>	<u>100.0%</u>	<u>\$ 44,582,342</u>	<u>\$ 73,326,221</u>

The Municipality has made its required contribution to the Program for the year ended June 30, 2009.

#### 14. Fund Balance

As of June 30 2009, fund balance is comprised of the following:

Fund balances:	Other			Total
	General Fund	Debt Service Fund	Governmental Funds	
<b>Nonspendable:</b>				
Inventory and other assets	\$ 2,876,154	\$ -	\$ 205,007	\$ 3,081,161
Loans receivable	-	-	12,063,927	12,063,927
<b>Restricted for:</b>				
General government	-	-	57,953	57,953
Public safety	-	-	464,861	464,861
Health and welfare	-	-	53,298	53,298
Urban development	-	-	10,707,038	10,707,038
Culture, recreation and education	-	-	32,345	32,345
Debt service	-	15,147,110	-	15,147,110
Capital projects	460,669	-	14,111,761	14,572,430
<b>Committed:</b>				
General government	-	-	1,251	1,251
Public safety	102,785	-	-	102,785
Health and welfare	19,339	-	-	19,339
Culture, recreation and education	11,527	-	-	11,527
Debt service	-	-	-	-
Capital projects	80,710	-	77,570,740	77,651,450
Other purposes	1,329,501	-	-	1,329,501
<b>Unassigned</b>	<b>(23,327,941)</b>	<b>-</b>	<b>(5,211,040)</b>	<b>(28,538,981)</b>
Total fund balances	<u>\$ (18,447,256)</u>	<u>\$ 15,147,110</u>	<u>\$ 110,057,141</u>	<u>\$ 106,756,995</u>

**15. Net Assets**

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

	Amount
Capital assets, net of accumulated depreciation	\$ 637,279,854
Outstanding balance on capital related debt	(537,662,204)
Unspent capital debt proceeds	102,980,761
Total invested in capital assets, net of related debt	<u>\$ 202,598,411</u>

**16. 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 Government 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.

**17. Commitments**

**A. Operating Leases**

The Municipality leases real property, buildings, vehicles and equipment under various 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, 2009, amounted to approximately \$5.9 million and \$1.5 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 material to the basic financial statements taken as a whole.

**B. Construction**

The Municipality had commitments at June 30, 2009 of approximately \$91.7 million for the construction, improvements, or renovation of several capital facilities and the capital assets.

**C. Other commitments**

At June 30, 2009, the general fund had commitments of approximately \$18.7 million for executory purchases orders or contracts that will be honored during the subsequent year. In addition, the nonmajor miscellaneous special revenue funds had a deficit of \$3.7 million which will be covered with future budgetary appropriations of the general fund, if necessary.



18. **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, 2009, for possible anticipated unfavorable judgments. These amounts were included in the financial statements and represent the amounts estimated as probable liabilities, which may require future available financial resources for its payment. The changes in the reserve for claim and judgments for the last two fiscal years are as follows:

	2009	2008
Balance as of July 1	\$ 5,500,000	\$ 5,500,000
Add: Provision for claims and judgments	1,760,475	2,272,095
Less: Payments of claims and judgments	<u>(1,760,475)</u>	<u>(2,272,095)</u>
Balance as of June 30	<u>\$ 5,500,000</u>	<u>\$ 5,500,000</u>

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 position, results of operations and cash flows 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 fiscal year ended June 30, 2009, 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. As described in Note 1, the accompanying Statement of Net Assets includes a reserve of \$2.1 million for possible federal cost disallowances related to questioned costs and claims from federal and state grantors.

**B. Gains**

The Municipality is a plaintiff in a number of lawsuits arising principally from claims against the Government of Puerto Rico for alleged, among others, non compliance with certain government-mandated transactions and other final settlements. 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, 2009, for anticipated favorable judgments of approximately \$50 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 Government of Puerto Rico and certain taxpayers will materially improve the financial condition of the Municipality.

19. Special Item

*Corporación Para el Fomento Económico de la Ciudad Capital* (COFECC, by its Spanish acronyms) is a not-for-profit organization engaged in housing and economic development activities within the City of San Juan, including the management (as trustee) of the *Independent Capital Fund*, a revolving fund created in 1983 through a trust agreement between the Municipality and COFECC (the ICF). The assets of the ICF consist of federal awards passed-through and assigned by the Municipality in 1983 under the Community Development Block Grant (CDBG) and the Urban Development Block Grant (UDAG), two federal programs promulgated by the U.S. Department of Housing and Urban Development (HUD). The ICF's principal objective was to promote the economic development within the City of San Juan by financing private investors to develop commercial and industrial projects.

In 2002, the Municipality filed a lawsuit against COFECC seeking breach of contract damages, the return of the remaining CDBG and UDAG funds previously received, and an injunctive and declaratory relief terminating the trust agreement pursuant to the results of a subrecipient monitoring review carried out by the Municipality that disclosed certain significant instances of noncompliance with the programs' requirements set forth by HUD.

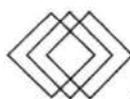
On September 15, 2005, the Office of Inspector General of HUD (the OIG), issued an audit report with respect to the administration of CDBG funds by COFECC in which several significant deficiencies were reported, including the inadequate use of funds amounting to \$4.1 million and unsupported administrative charges of approximately \$1 million.

On February 4, 2008, as part of the lawsuit referred to above, the Municipality commenced an arbitration process through a Statement of Claim filed at the International Center for Dispute Resolution of the American Arbitration Association and subsequently, on December 12, 2008, the Municipality entered into a tentative dispositive agreement with COFECC (the Agreement) in which both parties agreed the following:

- The Municipality would perform a Due Diligence Process over the ICF's assets, accounting records and files of CDBG and UDAG funds, which was completed, and a report revealing significant deficiencies was subsequently issued, on August 14, 2009 (the DDP).
- COFECC would continue to administer the ICF's loan portfolio during the DDP and would be paid a mutually agreed servicing fee subject to COFECC's commitment to undertake the necessary corrective actions to remediate all deficiencies reported by OIG and the Municipality.
- All ICF's assets amounting to approximately \$21 million would be transferred to the Municipality, of which \$6.0 million of CDBG funds and \$1.8 million of UDAG funds in cash were subsequently transferred to the Municipality on January 16, 2009. Simultaneously, real estate held for sale, with a carrying value of \$0.2, million, was also transferred to the Municipality during the current fiscal year.

Accordingly, during the fiscal year ended June 30, 2009, the Municipality recorded a special item of approximately \$20.3 million in the Independent Capital Fund (a nonmajor fund) since this significant, unusual and infrequent transaction was initiated and negotiated by the management of the Municipality.

In addition, the Municipality has recorded an accounts receivable of approximately \$12 million within other governmental funds as of June 30, 2009 for the remaining ICF's assets to be transferred to the Municipality at the conclusion of the process during the next fiscal year. Such assets consist principally of the estimated net realizable value of ICF's loans receivable amounting to approximately \$12.4 million.



- The Municipality would transfer to HUD approximately \$1.5 million to satisfy the deficiencies reported in OIG's audit report referred to above, which was subsequently made on May 12, 2009 and has been recorded in the general fund during the fiscal year ended June 30, 2009.

Management has elected to account for the transactions referred to above in a non-major special revenue fund reported within other governmental funds in the accompanying GFFS since the assets transferred from ICF are not subject to trust agreement nor are held by the Municipality in a trustee or agency capacity for others as of June 30, 2009. However, the use of those assets is restricted by federal regulations. Accordingly, the Municipality is currently evaluating alternatives for use those assets in compliance with one of the national objectives of use of funds established and approved by HUD.

## 20. Subsequent Events

During October 2009, the Municipality issued a general obligation bond of \$28.3 million for the third payment of the early retirement termination benefit. The bond will be due in annual installment through July 2034 and will bear interest at 90-day LIBOR plus 1.25 percent.

During October 2009, the Municipality issued a general obligation bond of \$11.2 million for capital asset improvements. The bond will be one in annual installment through July 2029, and will bear interest at 90-day labor plus 1.25 percent.

During December 2009, the Municipality issued general obligation bond of \$10.0 million for capital asset improvements. The bond will be due in annual installment trough 2019 and will bear interest at 90-day labor plus 1.25 percent.

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## REQUIRED SUPPLEMENTARY INFORMATION



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	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive
	Original	Final	(See Note 1)	(Negative)
<b>REVENUES:</b>				
Property taxes	\$ 156,662,490	\$ 156,662,490	\$ 158,824,236	\$ 2,161,746
Municipal license tax	149,000,000	149,000,000	155,890,878	6,890,878
Sales tax	53,600,000	53,600,000	45,195,100	(8,404,900)
Construction and other local taxes	24,500,000	29,500,000	28,570,648	(929,352)
Licenses and permits	374,000	374,000	352,825	(21,175)
Charges for services	39,099,846	39,099,846	47,274,476	8,174,630
Fines and forfeitures	5,225,000	5,225,000	4,634,041	(590,959)
Interest	6,500,000	6,500,000	4,906,971	(1,593,029)
Intergovernmental – local	30,406,164	30,406,164	29,484,554	(921,610)
Other	13,832,500	15,314,234	2,191,522	(13,122,712)
Transfers from other funds	-	-	5,000,000	5,000,000
Total revenues	<u>479,200,000</u>	<u>485,681,734</u>	<u>482,325,251</u>	<u>(3,353,483)</u>
<b>EXPENDITURES:</b>				
Current:				
General government	137,526,085	123,279,034	113,295,846	9,983,188
Public safety	49,669,791	50,597,640	56,595,223	(5,997,583)
Public works	66,938,799	72,275,583	74,117,448	(1,841,865)
Culture and recreation	10,774,271	14,698,281	15,236,460	(538,179)
Health and welfare	194,399,521	202,562,627	203,447,342	(884,715)
Urban development	3,568,304	3,637,978	3,659,815	(21,837)
Economic development	9,039,160	10,474,322	9,975,279	499,043
Education	7,284,069	8,156,269	6,528,310	1,627,959
Total expenditures	<u>479,200,000</u>	<u>485,681,734</u>	<u>482,855,723</u>	<u>2,826,011</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (530,472)</u>	<u>\$ (530,472)</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 482,325,251
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				(5,000,000)
Special general fund revenue				6,477,632
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 483,802,883</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 482,855,723
Differences - budget to GAAP:				
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes				(4,367,594)
Prior year encumbrances recorded as current year expenditures for GAAP basis				22,292,866
Special general fund expenditure				1,304,403
Current year encumbrances recorded as expenditures for budgetary purposes				(18,713,814)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 483,371,584</u>

The accompanying 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. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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, 2009 representing the original budget. There was one supplemental appropriation for the fiscal year ended June 30, 2009.

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## COMBINING FINANCIAL STATEMENTS



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### SPECIAL REVENUE FUNDS

Special Revenue Funds are established to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt services and capital projects.

**Department of Justice Funds** - These funds account for and report federal financial resources restricted to expenditures for various homeland security and criminal justice programs.

**Department of Labor Funds** - These funds account for and report federal financial resources restricted to expenditures related with the Workforce Investment Act (WIA).

**Health & Human Services Funds** - These funds account for and report federal financial resources restricted to expenditures for various health services programs, Community Services Block Grants, Ryan White Act and Head Start programs.

**Housing and Urban Development Funds** - These funds account for and report federal financial resources restricted to expenditures for various housing and urban development, rehabilitation and assistance programs.

**Independent Capital Fund** - This fund account for and report federal financial resources restricted to expenditures for a revolving loan program to small private business for the development of economic and commercial activity within the limits of San Juan.

**Miscellaneous Special Revenue Funds** - These funds account for and report miscellaneous financial resources restricted or committed to expenditures by the Municipality and subsidized in part by Local, State and Federal resources as well as miscellaneous sources.

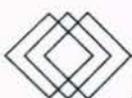
**Comunidad de Retiro** - This fund accounts for and reports the financial position and operation of Comunidad de Retiro. The Comunidad de Retiro Fund is included as part of other governmental funds and accounts for the financial position and operation of Comunidad de Retiro (the "Project"). The Municipality 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

### CAPITAL PROJECT FUNDS

Capital Projects Funds are established to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities and other capital assets.

**Joint Resolution Funds** - These funds account for and report resources received by the Government of Puerto Rico restricted for the construction of capital assets and infrastructure.



**Citizen Participation Funds** – These funds account for and report resources received by the CRIM restricted to expenditures for citizen's organizations for the construction or improvements of capital assets on their communities.

**Various Bond Issue Funds** – These funds account for and report resources from various bond issues before 2006 committed to expenditures for the construction or acquisition of major capital facilities and other capital assets.

**2006 Bond Issue Funds** – These funds account for and report resources from 2006 bond issues committed to expenditures for the construction or acquisition of major capital facilities and other capital assets.

**2007 Bond Issue Funds** – These funds account for and report resources from 2007 bond issues committed to expenditures for the construction or acquisition of major capital facilities and other capital assets.

**2008 Bond Issue Funds** – These funds account for and report resources from 2008 bond issues committed to expenditures for the construction or acquisition of major capital facilities and other capital assets.

**2008 SON 766 A** – This fund accounts for and report resources from 2008 special obligation note of \$36.1 million issues committed to expenditures for the construction or acquisition of major capital facilities and other capital assets.

**2008 SON 766 B** – This fund accounts for and report resources from 2008 special obligation note of \$37.1 million issues committed to expenditures for the construction or acquisition of major capital facilities and other capital assets.

**2009 Bond Issue Funds** – These funds account for and report resources from 2009 bond issues committed to expenditures for the construction or acquisition of major capital facilities and other capital assets.

**Loan Guarantee Fund** – This fund accounts for and report resources from 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, restricted to expenditures for the construction or acquisition of major capital facilities and other capital assets.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, various types of nonmajor special revenue and capital project funds have been combined into single similar funds in the accompanying fund financial statements.

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash	\$ 30,177,469	\$ 16,202,985	\$ 46,380,454
Cash with fiscal agent	77,783	102,980,761	103,058,544
Accounts receivable - intergovernmental	20,849,371	-	20,849,371
Accounts receivable - other	591,016	-	591,016
Loans receivable, net	12,063,927	-	12,063,927
Due from other funds	272,606	338,876	611,482
Inventories	29,806	-	29,806
Real estate held for sale	175,201	-	175,201
Restricted cash	3,276,830	-	3,276,830
Total assets	<u>\$ 67,514,009</u>	<u>\$ 119,522,622</u>	<u>\$ 187,036,631</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 5,673,803	\$ 15,361,333	\$ 21,035,136
Intergovernmental payables	208,163	-	208,163
Due to other funds	33,584,358	12,478,788	46,063,146
Deferred revenues	9,673,045	-	9,673,045
Total liabilities	<u>49,139,369</u>	<u>27,840,121</u>	<u>76,979,490</u>
Fund balances (deficit):			
Nonspendable	12,268,934	-	12,268,934
Restricted	11,315,495	14,111,761	25,427,256
Committed	1,251	77,570,740	77,571,991
Unassigned	(5,211,040)	-	(5,211,040)
Total fund balances (deficit)	<u>18,374,640</u>	<u>91,682,501</u>	<u>110,057,141</u>
Total liabilities and fund balances (deficit)	<u>\$ 67,514,009</u>	<u>\$ 119,522,622</u>	<u>\$ 187,036,631</u>



	Department of Justice Funds	Department of Labor Funds	Health & Human Services Funds	Housing & Urban Development Funds
<b>ASSETS</b>				
Cash	\$ 80,128	\$ 586,733	\$ 2,474,830	\$ 17,406,554
Cash with fiscal agent	-	-	-	-
Accounts receivable - intergovernmental	276,522	1,358,078	15,707,215	2,928,921
Accounts receivable - other	-	7,666	86,358	261,541
Loans receivable, net	-	-	-	-
Due from other funds	119,924	-	-	-
Inventories	-	-	29,806	-
Real estate held for sale	-	-	-	-
Restricted cash	-	-	-	-
Total assets	<u>\$ 476,574</u>	<u>\$ 1,952,477</u>	<u>\$ 18,298,209</u>	<u>\$ 20,597,016</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 19,813	\$ 162,433	\$ 2,421,995	\$ 2,233,040
Intergovernmental payables	-	-	188,662	19,501
Due to other funds	-	1,790,044	15,428,756	10,761,447
Deferred revenues	456,761	-	258,796	7,583,028
Total liabilities	<u>476,574</u>	<u>1,952,477</u>	<u>18,298,209</u>	<u>20,597,016</u>
Fund balances (deficit):				
Nonspendable	-	-	29,806	-
Restricted	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	(29,806)	-
Total fund balances (deficit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 476,574</u>	<u>\$ 1,952,477</u>	<u>\$ 18,298,209</u>	<u>\$ 20,597,016</u>

Independent Capital Fund	Miscellaneous Special Revenue Funds	Comunidad de Retiro	Total Nonmajor Special Revenues Funds
\$ 6,724,666	\$ 2,877,220	\$ 27,338	\$ 30,177,469
-	77,783	-	77,783
-	578,635	-	20,849,371
82,878	25,765	126,808	591,016
12,063,927	-	-	12,063,927
152,682	-	-	272,606
-	-	-	29,806
175,201	-	-	175,201
-	-	3,276,830	3,276,830
<u>\$ 19,199,354</u>	<u>\$ 3,559,403</u>	<u>\$ 3,430,976</u>	<u>\$ 67,514,009</u>
\$ 29,394	\$ 253,128	\$ 554,000	\$ 5,673,803
-	-	-	208,163
-	5,604,111	-	33,584,358
-	1,374,460	-	9,673,045
<u>29,394</u>	<u>7,231,699</u>	<u>554,000</u>	<u>49,139,369</u>
12,239,128	-	-	12,268,934
6,930,832	1,507,687	2,876,976	11,315,495
-	1,251	-	1,251
-	(5,181,234)	-	(5,211,040)
<u>19,169,960</u>	<u>(3,672,296)</u>	<u>2,876,976</u>	<u>18,374,640</u>
<u>\$ 19,199,354</u>	<u>\$ 3,559,403</u>	<u>\$ 3,430,976</u>	<u>\$ 67,514,009</u>



	Joint Resolution Funds	Citizen Participation Funds	Various Bond Issue Funds	2006 Bond Issue Funds	2007 Bond Issue Funds
<b>ASSETS</b>					
Cash	\$ 12,340,463	\$ 227,429	\$ -	\$ -	\$ -
Cash with fiscal agent	-	-	29,161,442	11,189,126	5,852,023
Accounts receivable - intergovernmental	-	-	-	-	-
Accounts receivable - other	-	-	-	-	-
Due from other funds	-	81,673	-	-	-
Total assets	<u>\$ 12,340,463</u>	<u>\$ 309,102</u>	<u>\$ 29,161,442</u>	<u>\$11,189,126</u>	<u>\$ 5,852,023</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 271,974	\$ 88,986	\$ 12,177,104	\$ 760,281	\$ 157,681
Intergovernmental payables	-	-	-	-	-
Due to other funds	1,058,092	-	849,802	1,959,781	2,429,344
Deferred revenues	-	-	-	-	-
Total liabilities	<u>1,330,066</u>	<u>88,986</u>	<u>13,026,906</u>	<u>2,720,062</u>	<u>2,587,025</u>
Fund balances:					
Restricted	11,010,397	220,116	-	-	-
Committed	-	-	16,134,536	8,469,064	3,264,998
Total fund balances	<u>11,010,397</u>	<u>220,116</u>	<u>16,134,536</u>	<u>8,469,064</u>	<u>3,264,998</u>
Total liabilities and fund balances	<u>\$ 12,340,463</u>	<u>\$ 309,102</u>	<u>\$ 29,161,442</u>	<u>\$11,189,126</u>	<u>\$ 5,852,023</u>

2008 Bond Issue Funds	2008 SON 766-A Fund	2008 SON 766-B Fund	2009 Bond Issue Funds	Loan Guarantee Fund	Total Nonmajor Capital Project Funds
\$ -	\$ -	\$ -	\$ -	\$ 3,635,093	\$ 16,202,985
5,981,668	5,204,140	18,451,211	27,141,151	-	102,980,761
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	257,203	338,876
<u>\$ 5,981,668</u>	<u>\$ 5,204,140</u>	<u>\$18,451,211</u>	<u>\$ 27,141,151</u>	<u>\$ 3,892,296</u>	<u>\$ 119,522,622</u>
\$ 12,000	\$ 248,306	\$ 67,120	\$ 566,833	\$ 1,011,048	\$ 15,361,333
-	-	-	-	-	-
629,178	1,020,003	776,317	3,756,271	-	12,478,788
-	-	-	-	-	-
<u>641,178</u>	<u>1,268,309</u>	<u>843,437</u>	<u>4,323,104</u>	<u>1,011,048</u>	<u>27,840,121</u>
-	-	-	-	2,881,248	14,111,761
<u>5,340,490</u>	<u>3,935,831</u>	<u>17,607,774</u>	<u>22,818,047</u>	-	<u>77,570,740</u>
<u>5,340,490</u>	<u>3,935,831</u>	<u>17,607,774</u>	<u>22,818,047</u>	<u>2,881,248</u>	<u>91,682,501</u>
<u>\$ 5,981,668</u>	<u>\$ 5,204,140</u>	<u>\$18,451,211</u>	<u>\$ 27,141,151</u>	<u>\$ 3,892,296</u>	<u>\$ 119,522,622</u>



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

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2009**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
<b>REVENUES:</b>			
Charges for services	\$ 2,138,158	\$ -	\$ 2,138,158
Interest	476,222	-	476,222
Intergovernmental Federal	105,430,925	-	105,430,925
Intergovernmental Local	-	6,133,353	6,133,353
Other	1,868,385	12,289	1,880,674
Total revenues	<u>109,913,690</u>	<u>6,145,642</u>	<u>116,059,332</u>
<b>EXPENDITURES:</b>			
Current:			
General government	7,706,251	981,797	8,688,048
Public safety	1,128,301	157,687	1,285,988
Public works	99,205	2,509,430	2,608,635
Culture and recreation	933,066	526,607	1,459,673
Health and welfare	48,325,220	3,440,189	51,765,409
Urban development	36,213,893	9,474,032	45,687,925
Economic development	7,264,607	41,999	7,306,606
Education	4,843,333	971,013	5,814,346
Capital outlays	1,261,408	74,808,175	76,069,583
Debt service:			
Principal	3,272,639	-	3,272,639
Interest and other charges	3,715,296	-	3,715,296
Total expenditures	<u>114,763,219</u>	<u>92,910,929</u>	<u>207,674,148</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(4,849,529)</u>	<u>(86,765,287)</u>	<u>(91,614,816)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfer in	4,367,594	-	4,367,594
Proceeds from bonds issued	-	28,650,000	28,650,000
Transfer out	(1,500,000)	-	(1,500,000)
Total other financing sources	<u>2,867,594</u>	<u>28,650,000</u>	<u>31,517,594</u>
<b>SPECIAL ITEM:</b>			
Transfer from Independent Capital Fund	20,344,821	-	20,344,821
<b>NET CHANGE IN FUND BALANCES</b>	18,362,886	(58,115,287)	(39,752,401)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>11,754</u>	<u>149,797,788</u>	<u>149,809,542</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 18,374,640</u>	<u>\$ 91,682,501</u>	<u>\$ 110,057,141</u>

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES (DEFICIT) -  
NONMAJOR SPECIAL REVENUE FUNDS  
For the Fiscal Year Ended June 30, 2009

	Department of Justice Funds	Department of Labor Funds	Health & Human Services Funds	Housing & Urban Development Funds
<b>REVENUES:</b>				
Charges for services	\$ -	\$ -	\$ -	\$ -
Interest	261	-	-	4,534
Intergovernmental Federal	962,210	6,242,872	44,236,064	44,898,599
Intergovernmental Local	-	-	-	-
Other	-	-	-	1,868,385
Total revenues	<u>962,471</u>	<u>6,242,872</u>	<u>44,236,064</u>	<u>46,771,518</u>
<b>EXPENDITURES:</b>				
Current:				
General government	140,470	-	6,903,241	605,745
Public safety	509,805	-	-	265,909
Public works	-	-	-	28,000
Culture and recreation	-	-	-	918,613
Health and welfare	152,896	3,395	41,510,647	2,610,543
Urban development	-	-	-	34,639,178
Economic development	-	6,192,149	-	926,170
Education	-	-	121,678	-
Capital outlays	159,300	47,328	68,092	470,453
Debt service:				
Principal	-	-	-	2,985,000
Interest and other charges	-	-	-	3,321,907
Total expenditures	<u>962,471</u>	<u>6,242,872</u>	<u>48,603,658</u>	<u>46,771,518</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>(4,367,594)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	-	-	4,367,594	-
Transfer out	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>4,367,594</u>	<u>-</u>
<b>SPECIAL ITEM:</b>				
Transfer from Independent Capital Fund	-	-	-	-
<b>NET CHANGE IN FUND BALANCES (DEFICIT)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)



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

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECT FUNDS  
For the Fiscal Year Ended June 30, 2009**

	2007 Bond Issue Funds	2008 Bond Issue Funds	2008 SON 766-A	2008 SON 766-B
<b>REVENUES:</b>				
Charges for services	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Intergovernmental Federal	-	-	-	-
Intergovernmental Local	-	-	-	-
Other	-	12,289	-	-
Total revenues	<u>-</u>	<u>12,289</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Current:				
General government	66,088	749,356	-	21,580
Public safety	-	143,687	-	-
Public works	495,486	1,997,567	75,264	(656,907)
Culture and recreation	18,210	41,100	-	-
Health and welfare	806,498	1,109,864	-	-
Urban development	69,027	-	8,840,159	-
Economic development	41,999	-	-	-
Education	-	-	-	-
Capital outlays	6,424,793	4,737,196	20,462,331	18,046,856
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>7,922,101</u>	<u>8,778,770</u>	<u>29,377,754</u>	<u>17,411,529</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 7,922,101)</u>	<u>(8,766,481)</u>	<u>(29,377,754)</u>	<u>(17,411,529)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer in	-	-	-	-
Proceeds from bonds issued	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>SPECIAL ITEM:</b>				
Transfer from Independent Capital Fund	-	-	-	-
<b>NET CHANGE IN FUND BALANCES (DEFICIT)</b>	<u>(7,922,101)</u>	<u>(8,766,481)</u>	<u>(29,377,754)</u>	<u>(17,411,529)</u>
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	<u>11,187,099</u>	<u>14,106,971</u>	<u>33,313,585</u>	<u>35,019,303</u>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u>\$ 3,264,998</u>	<u>\$ 5,340,490</u>	<u>\$ 3,935,381</u>	<u>\$ 17,607,774</u>

2009 Bond Issue Funds	Loan Guarantee Fund	Total Nonmajor Capital Projects Funds
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	6,133,353
-	-	12,289
<u>-</u>	<u>-</u>	<u>6,145,642</u>
18,744	-	981,797
14,000	-	157,687
-	-	2,509,430
227,805	22,653	526,607
-	61,000	3,440,189
-	-	9,474,032
-	-	41,999
571,981	-	971,013
4,999,423	5,801,310	74,808,175
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>5,831,953</u>	<u>5,884,963</u>	<u>92,910,929</u>
<u>(5,831,953)</u>	<u>(5,884,963)</u>	<u>(86,765,287)</u>
-	-	-
28,650,000	-	28,650,000
<u>-</u>	<u>-</u>	<u>-</u>
<u>28,650,000</u>	<u>-</u>	<u>28,650,000</u>
-	-	-
22,818,047	(5,884,963)	(58,115,287)
<u>-</u>	<u>8,766,211</u>	<u>149,797,788</u>
<u>\$ 22,818,047</u>	<u>\$ 2,881,248</u>	<u>\$ 91,682,501</u>



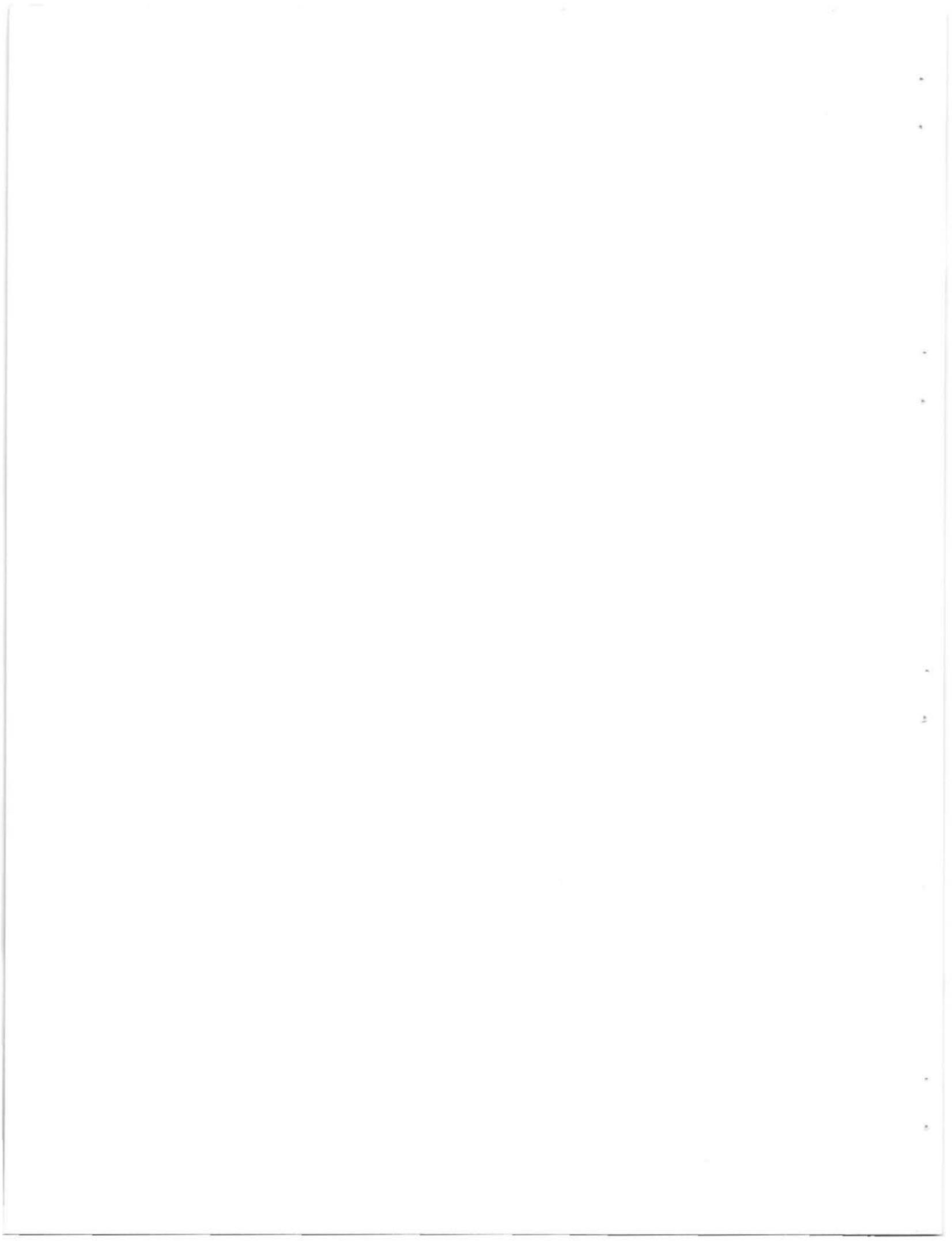
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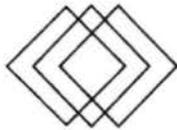
**MUNICIPALITY OF SAN JUAN  
CAPITAL CITY OF PUERTO RICO**

**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***







# Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Richard N. Alfaro, CPA (1951-1998)

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Eduardo González-Green, CPA, CFE

## 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, 2009, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 23, 2009. 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.

### 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 08-01 to 08-05 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 09-01 and 09-05 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 23, 2009

*Aguiño, Sebastian, affaro & co. LLP*

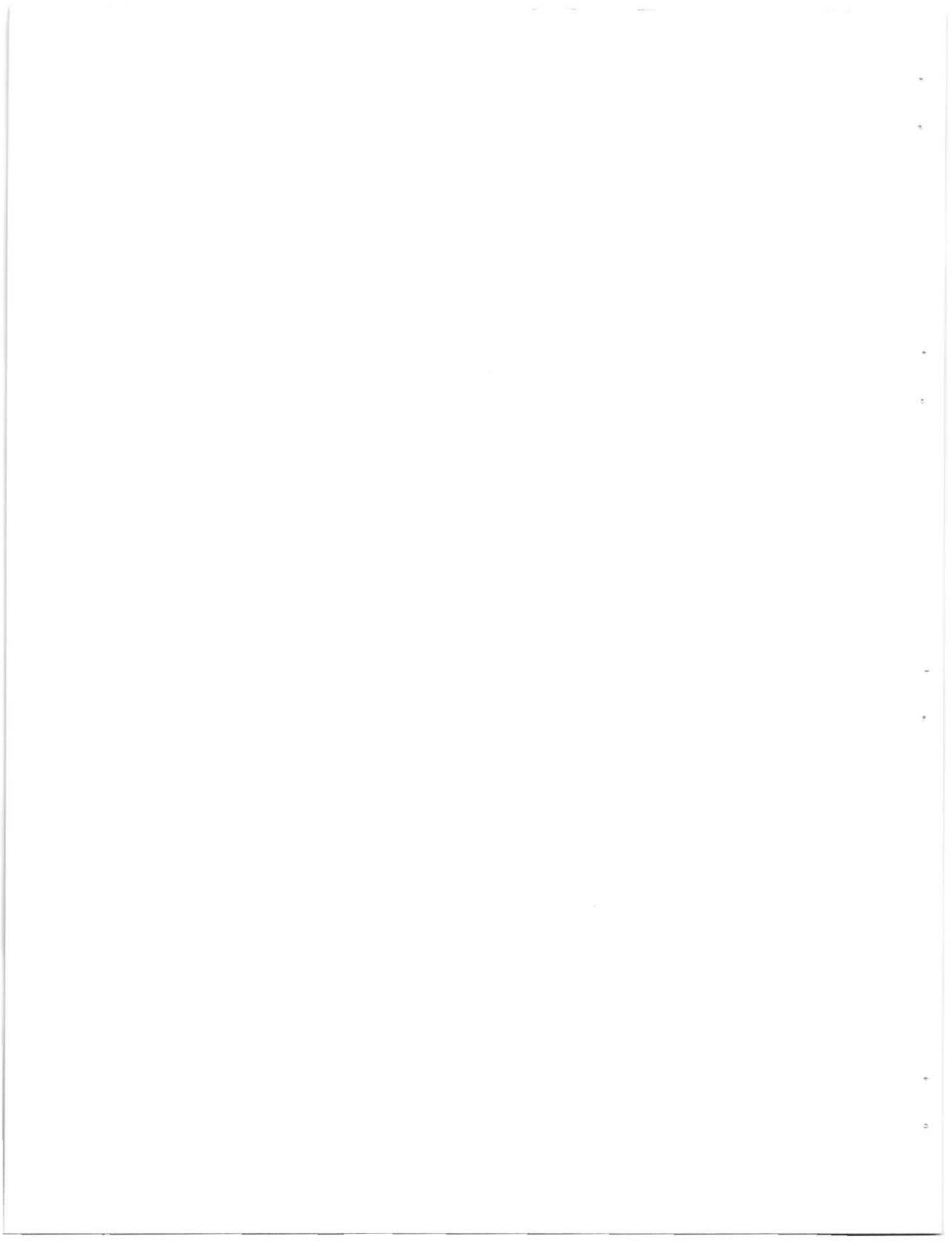
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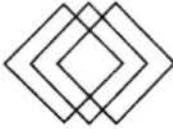
MUNICIPALITY OF SAN JUAN  
CAPITAL CITY OF PUERTO RICO

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







# Aquino, De Córdova, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Richard N. Alfaro, CPA (1951-1998)

Jorge Aquino Barreto, CPA, CVA  
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Miguel Angel Ortiz, CPA  
Eduardo González-Green, CPA, CFE

## 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, 2009. 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 grants, 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.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing 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 08-06 to 08-11 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 cost/ cost Principle		All federal programs	09-06
Reporting	14.239 17.258, 17.259, 17.260	HOME Investment Partnership Program Workforce Investment Act	09-09 09-11
Subrecipient Monitoring	14.241 93.914	Housing Opportunities for Persons with AIDS HIV Emergency Relief Project Grants	09-08 09-10

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, 2009.

**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 09-08 and 09-10 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 09-05, 09-06, 09-09 and 09-11 to be material weaknesses.

The Municipality's responses 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 responses 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 19, 2010

*Aquino, De Cordova, Alfaro & Co. LLP*

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has been affixed to the  
original report

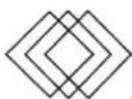




MUNICIPALITY OF SAN JUAN  
CAPITAL CITY OF PUERTO RICO

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS





**MUNICIPALITY OF SAN JUAN SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2009  
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>Number</u>
Section 8 Housing Choice Vouchers	14.871
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249
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
Federal Pell Grants Program	84.063
Supplementary Educational Opportunity Grants	84.007
Federal Work-Study Program (FWS)	84.033

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 COST**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Reference Number	Findings	Questioned Costs for the Year Ended June 30, 2009
<b>Accounting and Finance Department</b>		
09-01	Deficit in the Municipality's general fund at June 30, 2009.	\$ -
09-02	The Municipality is not canceling outstanding checks, which have been outstanding for a period in excess of six months.	
09-03	Inactive and unnecessary funds and accounts are not closed.	
09-04	Internal control over property management need to be strengthened.	
09-05	The Municipality does not have an effective system to ensure the completeness and accuracy of the employee files.	
<b>All federal programs</b>		
09-06	The municipality does not prepare periodic certifications.	
<b>Housing Opportunities for Persons with AIDS</b>		
09-07	The Municipality must improve its internal control over compliance with subrecipient monitoring.	
09-08	The Municipality does not have adequate internal controls over the valuation of subgrantee proposals and monitoring subrecipients' activities.	
		-

(continued)

**MUNICIPALITY OF SAN JUAN**  
**CAPITAL CITY OF PUERTO RICO**  
**SCHEDULE OF FINDINGS AND QUESTIONED COST**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Reference Number	Findings	Questioned Costs for the Year Ended June 30, 2009
<b>Home Investment Program</b>		
09-09	Controls over financial information included in report submitted to HUD need to be strengthened	
<b>HIV Emergency Relief Project Grants</b>		
09-10	The Municipality must improve its subrecipient monitoring procedures	
<b>WIA</b>		
09-11	Financial report were submitted late.	-
Total		\$ -



**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, 2009**

**Finding Number 09-01**

Department

Accounting and Finance

Category

Internal Control

Condition

The Municipality closed its year ended June 30, 2009 with a fund balance deficiency in the general fund of approximately \$18.4 million. In 2009, the Municipality reduced the deficit by approximately \$1.1 million and established a long-term financial plan to amortize 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

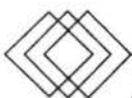
The above situation is primarily due to the fact that, in prior years, the Municipality was appropriating expenditures assuming revenues using the estimated tax collection projection provided by the Municipal Revenue Collection Center (the "Center"). Therefore, the Municipality entered into purchases 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, 2009**

**Finding Number 09-02**

Department

Accounting and Finance

Category

Internal Control

Condition

The Municipality is not canceling 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, 2009**

**Finding Number 09-03**

Department

Accounting and Finance

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, 2009.

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

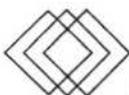
This situation occurs because the Municipality has not analyzed and closed inactive funds as well as the related bank accounts when the funds' objectives have been achieved or are no longer of relevance.

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, 2009**

**Finding Number 09-04**

Department

Property Management

Category

Internal Control

Condition

The Municipality has not performed a physical inventory. According to the existing records, the cost of the property owned by the Municipality is approximately \$836.1 million as of June 30, 2009. In addition, property records are not segregated by fund.

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.

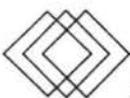
Recommendation

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, 2009

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, 2009**

**Finding Number 09-05**

Department

Accounting and Finance Department

Category

Internal Control

Condition

A sample of 25 employee files were tested and 25 files (100%) lack documentation concerning salaries increase.

Criteria

Article 11.023 of the Municipalities Law establishes that the Municipality shall maintain updated and complete employee files.

Effects

Incomplete employee files could result in having inadequate records to support payroll and personnel transactions.

Cause

The above situation is the result of a lack of review and maintenance of employee files by the personnel department.

Recommendation

The Human Resources and Labor Relations Department should review each employee file and ascertain their completeness. Management could design a standard checklist where the file reviewer could determine if documents are missing from each file. Signed SP2 ("Informe de cambio") should always support the amount increased to employees.

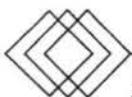
Views of responsible personnel

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



**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, 2009**

**Finding Number 09-06**

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 resources 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  
FOR THE YEAR ENDED JUNE 30, 2009**

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 employees' 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  
FOR THE YEAR ENDED JUNE 30, 2009**

**Finding Number 09-07**

Federal program

Housing Opportunities for Persons with Aids, CFDA # 14.241

Category

Internal Control

Compliance requirements

Sub-recipient monitoring

Condition

In testing compliance and internal controls over compliance for Housing Opportunities for Persons with Aids ("HOPWA") 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: 09-08.

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

**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, 2009**

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  
FOR THE YEAR ENDED JUNE 30, 2009**

**Finding Number 09-08**

Federal program

Housing Opportunity for Persons with AIDS, CFDA # 14.241

Category

Compliance / Internal Control

Compliance requirements

Allowable costs  
Subrecipient monitoring

Condition

In testing compliance and internal control over compliance with the subrecipients' monitoring requirement, we noted that the Municipality paid the subrecipients in excess of the awarded amount.

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 establish that a pass-through entity is responsible for:

- *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.
- *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 the 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's activities are monitored, subrecipient's audit findings are resolved, and the impact of any subrecipient's 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's performance is not adequately performed.

**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, 2009**

Cause

The Municipality overlooks procedures related to the contracts control with the subrecipients by not registering them in the purchase module.

Questioned Costs

None

Recommendation

The Municipality should revise the internal control policies and procedures they have and modify them in order to address weaknesses in their design. The following guideline should be considered:

Develop a tracking system that alerts the approaching deadlines for reports and corrective action plans in order to have control of the amount disbursed.

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  
FOR THE YEAR ENDED JUNE 30, 2009**

**Finding Number 09-09**

Federal program

HOME Investment Partnership Program, CFDA # 14.239

Category

Internal Control

Compliance requirement

Reporting

Condition

During our tests on compliance and internal control over compliance with the reporting requirement, we noted that the expenditures amount shown on the Financial Summary included within the Consolidated Annual Performance and Evaluation Report ("CAPER") is obtained from the HUD's system Integrated Disbursements and Information System ("IDIS"). However, said data is not reconciled to the Municipality's general ledger. As of June 30, 2009 differences were noted between these two systems.

Criteria

24 CFR 85.20(b)(1) establishes that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Effects

The continued occurrence of this situation prevents the awarding agency from monitoring the program's financial performance. In addition, the Municipality could be sanctioned by the federal awarding agency due to the inaccurate filing of federal financial reports.

Cause

The above situation resulted because management's assessment was that the program is only required to inform expenditures as per the IDIS system and that reconciliations with general ledger were not necessary to support the accuracy of the information obtained from IDIS.

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  
FOR THE YEAR ENDED JUNE 30, 2009**

Recommendation

The Municipality should perform timely reconciliation and cutoff procedures between numbers kept at the federal programs and numbers recorded in the Municipality's general ledger in order to obtain reasonable assurance that financial reports submitted to the federal awarding agency include all activities of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

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  
FOR THE YEAR ENDED JUNE 30, 2009**

**Finding Number 09-10**

Federal program

HIV Emergency Relief Project Grants, CFDA # 93.914

Category

Internal Control/Compliance

Compliance requirement

Subrecipient Monitoring

Condition

To reinforce the accuracy of reimbursements of funds, the Municipality performs 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:

- A draft of the Program-specific audit was made available. Such draft resulted in various instances of noncompliance in eligibility, subrecipient monitoring and activities allowed or unallowed.

For program year 2009, the Municipality performed fiscal and programmatic monitoring and final reports have not been issued.

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 own records.
- In addition, 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.

**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, 2009**

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 subgrantee performance is not adequately performed.

Cause

The above conditions are primarily due to the lack of an effective oversight by the Municipality's management over the monitoring of subrecipient's fiscal and programmatic operations. Other exceptions are the result of inappropriate follow up procedures on subgrantee compliance with agreement clauses.

Questioned Costs

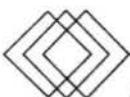
None.

Recommendation

The Municipality should assign sufficient resources to enable the performance of adequate monitoring of subrecipients.

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  
FOR THE YEAR ENDED JUNE 30, 2009**

**Finding Number 09-11**

Federal program

Workforce Investment Act (WIA) — CFDA # 17.258, # 17.259, # 17.260

Category

Internal Control/ Compliance

Compliance requirements

Reporting

Condition

The cumulative financial reports submitted to the Puerto Rico Human Resources and Occupational Development Council ("PRHRODC") did not agree with the accounting records. In addition, the Program did not timely reconcile differences between the Program's financial monthly reports and the Municipality's accounting records. Also, the cumulative financial report was not submitted on time.

Criteria

Based on provisions of the contract agreement between the PRHRODC and the Municipality, the WIA Program of the Municipality is required to submit to the PRHRODC a monthly cumulative expenditures report and is also required to maintain adequate fund accounting.

In addition, OMB Circular A-102, accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.

Effects

Failure to report accurate information prevents the granting agency from monitoring the performance of the program's financial activities, assessing the achievements of the program and evaluating the expected grant award for the following years. At the same time, the Municipality could be exposed to significant adjustments to the grant already awarded.

Cause

As per the Municipality's management, this report was prepared with the financial data recorded in the books at the program level due to unreconciled differences between the numbers kept at the program level and the numbers in the Municipality's general ledger. Differences are due to certain expenditures that were recorded by the program but not yet recorded by the Municipality.

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  
FOR THE YEAR ENDED JUNE 30, 2009**

Recommendation

We recommend that adequate accounting records be developed to provide current, complete and accurate data. It must include a general ledger and other records such as subsidiary ledgers.

In addition, the Municipality should perform timely reconciliation and cut-off procedures between numbers kept at federal programs and numbers recorded in the Municipality's general ledger in order to provide reasonable assurance that financial reports submitted to the federal awarding agency include all activities of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

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, 2009**

**MUNICIPALITY OF SAN JUAN  
CAPITAL CITY OF PUERTO RICO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2009
<b><u>Department of Housing and Urban Development (HUD)</u></b>		
Section 8 Housing Choice Vouchers	14.871	\$ 18,796,595
Community Development Block Grants/Entitlement Grants	14.218	11,524,911
HOME Investment Partnership Programs	14.239	3,809,013
Housing Opportunities for Persons with AIDS	14.241	6,556,031
Lower Income Housing Assistant Program-Section 8 Moderate Rehabilitation	14.856	3,524,456
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	348,417
Emergency Shelter Grants Program	14.231	517,092
Supportive Housing Program	14.235	1,267,548
Community Development Block Grants/Section 108 Loan Guarantees	14.248	5,884,963
Shelter Plus Care	14.238	427,455
Community Development Block Grant	14.218	5,774
Urban Development Action Grants	14.221	140,514
Subtotal		52,802,769
<b><u>Department of Health and Human Services (HHS)</u></b>		
Head Start	93.600	28,580,910
HIV Emergency Relief Project Grants	93.914	13,449,272
Health Center Grants for Homeless Populations (HCH)	93.151	467,943
<b>Pass-through from Commonwealth of Puerto Rico Families and Child Administration-</b>		
Community Services Block Grant	93.569	4,800,285
<b>Pass-through from Commonwealth of Puerto Rico Governor's Office-</b>		
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	1,297,497
<b>Pass-through from Commonwealth of Puerto Rico-WESTAT-</b>		
National Health Institute-WESTAT	93.990	938,904
<b>Pass-through from Commonwealth of Puerto Rico Department of Education-</b>		
Risk Reduction	93.941	208,250
Childhood Immunization Grants	93.268	36,416
Subtotal		49,779,477



**MUNICIPALITY OF SAN JUAN**  
**CAPITAL CITY OF PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**  
**FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2009
<b><u>Department of Labor (DOL)</u></b>		
<b>Pass-through from Commonwealth of Puerto Rico Right to Employment Administration-</b>		
Workforce Investment Act (WIA)	17.258	1,930,621
Workforce Investment Act (WIA)	17.259	2,368,750
Workforce Investment Act (WIA)	17.260	<u>1,918,962</u>
Subtotal		<u>6,218,333</u>
<b><u>Department of Justice (DOJ)</u></b>		
Drug Free Communities Support Programs Grants	16.729	105,544
Gang Resistance Education and Training (GREAT)	16.737	28,497
Community Prosecution Project Safe Neighborhoods	16.609	193,878
<b>Pass-through from Commonwealth of Puerto Rico Department of Justice:</b>		
Local Law Enforcement Block Grant	16.850	77,611
Crime Victim Assistant	16.575	75,285
Alcohol, Tobacco and Firearms Training Assistance	16.012	<u>45,193</u>
Subtotal		<u>526,008</u>
<b><u>Department of Education (DE)</u></b>		
Federal Pell Grant Program (PELL)	84.063	4,140,073
TRIO Student Support Services	84.042	292,437
Supplementary Educational Opportunity Grants	84.007	20,917
Minority Science	84.120	126,355
Federal Work-Study Program (FWS)	84.033	<u>45,702</u>
Subtotal		<u>4,625,484</u>

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, 2009**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2009
<b><u>Department of Agriculture (USDA)</u></b>		
Pass-through from Commonwealth of Puerto Rico Department of Education- Child and Adult Care Food Program (CACFP)	10.558	2,130,143
<b><u>Corporation for National and Community Service</u></b>		
<b><u>Pass-through from Commonwealth of Puerto Rico Department of Health:</u></b>		
Foster Grandparent Program	94.011	406,766
Retired and Senior Volunteer Program	94.002	70,245
Subtotal		<u>477,011</u>
<b><u>Department of Homeland Security</u></b>		
Emergency Management Performance Grants	97.042	305,666
Homeland Security Grant Program	97.067	601,840
Federal Transit Capital Investment	20.500	175,584
Subtotal		<u>1,083,090</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<b><u>\$ 117,642,315</u></b>

See notes to Schedule of Expenditures of Federal Awards



**MUNICIPALITY OF SAN JUAN**  
**CAPITAL CITY OF PUERTO RICO**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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	\$ 117,642,315
Comunidad de Retiro	2,522,452
Nonfederal programs included in the special revenue funds	<u>448,348</u>
Total special revenue funds	120,648,185
Capital projects funds	<u>87,025,963</u>
Other governmental funds column in the fund financial statements	<u>\$ 207,674,148</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**  
**ANNUAL SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2009**

Reference Number	Finding Description	Questioned Costs	Status
<b>Accounting and Finance Department</b>			
08-01	Deficit in the Municipality's general fund at June 30, 2008	\$ -	Situation still prevails. Refer to Finding 09-01 and related Corrective Action Plan.
08-02	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 09-02 and related Corrective Action Plan.
08-03	Inactive and unnecessary funds and accounts are not closed.		Situation still prevails. Refer to Finding 09-03 and related Corrective Action Plan.
08-04	Internal control over property management need to be strengthened.		Situation still prevails. Refer to Finding 09-04 and related Corrective Action Plan.
<b>All federal programs</b>			
08-05	The municipality does not prepare periodic certifications.		Situation still prevails. Refer to Finding 09-06 and related Corrective Action Plan.
<b>Section 8 Housing Choice Vouchers</b>			
08-06	The Municipality does not have adequate controls over participants files related to the eligibility.		Corrective Action Plan implemented with positive results.
<b>Housing Opportunities for Persons with AIDS</b>			
08-07	The Municipality must improve its internal control over its Hopwa funds.		Situation still prevails. Refer to Finding 09-07 and related Corrective Action Plan.
08-08	Controls over financial information included in reports submitted to HUD needs to be strengthened.		Corrective Action Plan implemented with positive results.
08-09	The Municipality does not have adequate internal controls over the valuation of subgrantee proposals and monitoring subrecipients' activities.		Situation still prevails. Refer to Finding 09-08 and related Corrective Action Plan.
<b>WIA</b>			
08-10	The Municipality does not comply with federal requirements regarding earmarking procedures	196,000	Corrective Action Plan implemented with positive results.
08-11	Financial report submitted to PRHRODC did not agree with the accounting records	-	Situation still prevails. Refer to Finding 09-11 and related Corrective Action Plan.
<b>CSBG</b>			
08-12	The Municipality did not comply with federal requirements regarding cash management procedures.		Corrective Action Plan implemented with positive results.
<b>Community Development Block Grant</b>			
08-13	The construction contracts do not include a Davis-Bacon Act clause.		Corrective Action Plan implemented with positive results.
		\$ 196,000	

