

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

**OMB CIRCULAR A-133 AUDIT**

As of and For the Fiscal Year Ended June 30, 2011  
And Independent Auditors' Report



Fifth Floor of the Municipal Tower, 160 Chardon Avenue, San Juan, Puerto Rico 00919  
Visit our web site at [www.sanjuan.pr](http://www.sanjuan.pr)

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PART I

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND  
ADDITIONAL SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30,  
2011, AND INDEPENDENT AUDITORS' REPORT

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

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the Legislature of  
Municipality of San Juan,  
Capital City of Puerto Rico  
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Capital City of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2011, which collectively comprise the Municipality's basic financial statements on pages 21 to 75. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality as of June 30, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2012, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison – general fund information on pages 7 through 20 and on pages 77 and 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

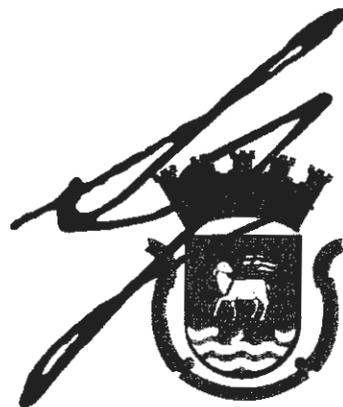
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a 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 also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

March 9, 2012

*Aguino, De Cordova, Offero & Co. LLP*

Stamp number 2635065  
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, 2011.

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 \$23.5 million.
- In the fund financial statements, total revenues increased approximately \$36.1 million (or 5.2%) while total expenditures increased approximately \$11.4 million (or 1.5%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of deficit by \$2.3 million.
- On a budgetary basis, the General Fund's actual expenditures were approximately \$9.3 million less than actual revenues.
- The Municipality issued bonds and notes amounting to approximately \$107.2 million to finance an early retirement termination benefit, capital improvements and the construction or acquisition of other capital assets.
- The total net assets of the proprietary fund amounted to (\$201,598) - excess liabilities over assets.
- The total net assets of the proprietary fund decreased by \$201,598 during the period from inception December 15, 2010 to June 30, 2011.

### **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.

Both of the government-wide financial statements distinguish functions of the Municipality that are mostly supported by taxes and intergovernmental revenues (governmental activities) from other functions that are financed with debt that is secured by a pledge of the net revenues from rent service charge of the International Center. The governmental activities include general government, public safety, public works, culture and recreation, health and welfare, urban development, economic development and education.

### **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 two categories of funds.

- Governmental fund financial statements - 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.

- Proprietary fund financial statements - Proprietary funds are used to account for activities that operate more like those of business enterprises. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There are no reconciling items between the government-wide financial statements and the proprietary fund financial statements. The only proprietary fund operated by the Municipality is the International Center. The basic proprietary fund financial statements can be found immediately following the governmental fund financial statements.

### **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:

ASSETS						
Capital assets	\$ 654,605	\$ 651,401	\$ 54,616	\$ -	\$ 709,221	\$ 651,401
Other assets	346,346	347,700	1,528	-	347,874	347,700
<b>Total assets</b>	<b>1,000,951</b>	<b>999,101</b>	<b>56,144</b>	<b>-</b>	<b>1,057,095</b>	<b>999,101</b>
LIABILITIES						
Current liabilities	237,762	245,687	1,274	-	239,036	245,687
Noncurrent liabilities	752,988	766,753	55,072	-	808,060	766,753
<b>Total liabilities</b>	<b>990,750</b>	<b>1,012,440</b>	<b>56,346</b>	<b>-</b>	<b>1,047,096</b>	<b>1,012,440</b>
NET ASSETS						
Invested in capital assets, net						
of related debt	273,583	252,341	-	-	273,583	252,341
Restricted for:						
Debt service	38,273	25,024	-	-	38,273	25,024
Other purposes	14,590	18,523	-	-	14,590	18,523
Unrestricted	(316,243)	(309,227)	(202)	-	(316,445)	(309,227)
<b>Total net assets</b>	<b>\$ 10,203</b>	<b>\$ (13,339)</b>	<b>\$ (202)</b>	<b>\$ -</b>	<b>\$ 10,001</b>	<b>\$ (13,339)</b>

The Municipality's total assets amounted to \$1,001.0 million at June 30, 2011, an increase of \$58.0 million when compared with the prior year. The increase in capital assets of \$57.8 million is mainly due to the acquisition of International Center by approximately \$55 million.

The Municipality's total liabilities amounted to \$990.8 million at June 30, 2011, an increase of \$34.7 million when compared with the prior year. The increase is mainly due to the issuance of general obligation bonds, revenue bond, notes payable and additions to compensated absences, pension-related debt and other long-term liabilities of approximately \$138.0 million, net of the principal payments and deductions of long-term liabilities of approximately \$96.7 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,						
	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
<b>Program revenues:</b>						
Charges for services	\$ 68,300	\$ 60,417	\$ 1,528	\$ -	\$ 69,828	\$ 60,417
Operating grants and contributions	136,488	121,008	-	-	136,488	121,008
Capital grants and contributions	6,330	4,610	-	-	6,330	4,610
<b>General revenues:</b>						
Property taxes	237,819	238,690	-	-	237,819	238,690
Municipal license tax	153,974	157,381	-	-	153,974	157,381
Sales Tax	56,405	54,487	-	-	56,405	54,487
Construction excise and other local taxes	21,985	16,637	-	-	21,985	16,637
Grants and contributions not restricted to specific programs	38,031	30,380	-	-	38,031	30,380
Interest income	2,565	3,884	-	-	2,565	3,884
Other	6,646	4,964	-	-	6,646	4,964
<b>Total revenues</b>	<b>728,543</b>	<b>692,458</b>	<b>1,528</b>	<b>-</b>	<b>730,071</b>	<b>692,458</b>
<b>Expenses:</b>						
General government	143,282	118,236	-	-	143,282	118,236
Public safety	63,910	64,185	-	-	63,910	64,185
Public works	78,562	76,920	-	-	78,562	76,920
Culture and recreation	24,001	26,319	-	-	24,001	26,319
Health and welfare	264,980	259,579	-	-	264,980	259,579
Urban development	52,232	57,456	-	-	52,232	57,456
Economic development	26,033	25,424	-	-	26,033	25,424
Education	20,202	21,071	-	-	20,202	21,071
Interest on long-term debt	31,800	30,306	-	-	31,800	30,306
International Center	-	-	1,730	-	1,730	-
<b>Total expenses</b>	<b>705,002</b>	<b>679,496</b>	<b>1,730</b>	<b>-</b>	<b>706,732</b>	<b>679,496</b>
<b>Change in net assets</b>	<b>23,541</b>	<b>12,962</b>	<b>(202)</b>	<b>-</b>	<b>23,339</b>	<b>12,962</b>
<b>Net assets at beginning of year</b>	<b>(13,338)</b>	<b>(26,300)</b>	<b>-</b>	<b>-</b>	<b>(13,338)</b>	<b>(26,300)</b>
<b>Net assets at end of year</b>	<b>\$ 10,203</b>	<b>\$ (13,338)</b>	<b>\$ (202)</b>	<b>\$ -</b>	<b>\$ 10,001</b>	<b>\$ (13,338)</b>

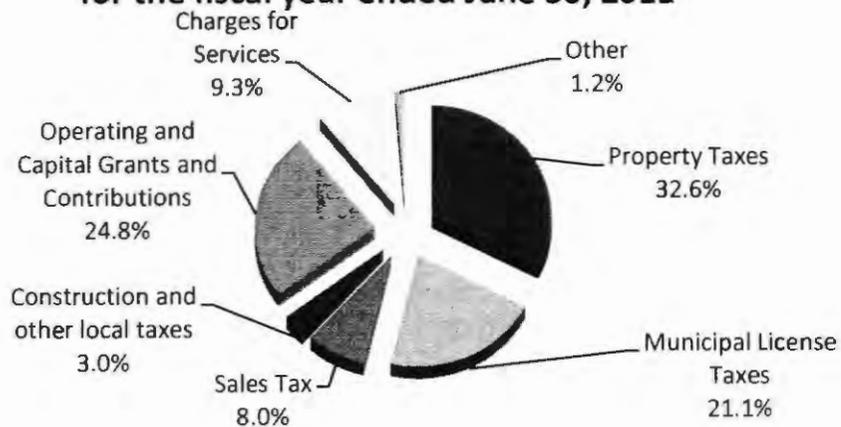
The Municipality's total revenues increased by approximately \$37.6 million. Approximately, 64.4% (67.5% in 2010) of the Municipality's total revenue came from taxes, while approximately 24.8% (22.5% in 2010) resulted from grants and contributions, including federal aid. Charges for services provided approximately 9.6% (8.7% in 2010) of the total revenues.

Revenues from taxes increased by approximately \$3.0 million. Revenues from construction and other local taxes increased by \$5.3 million due to the increase in construction projects mainly financed by the public sector.

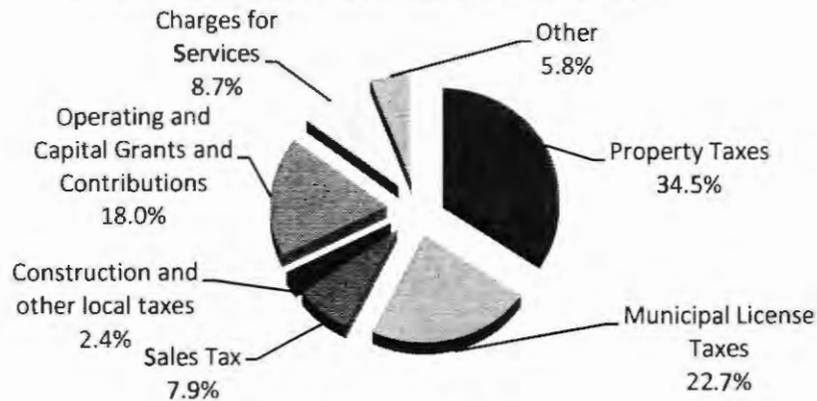
Charges for services increased by approximately 15.6% when compared with the prior fiscal year mainly due to an increase in health care service revenues.

The following charts summarize the Municipality's revenues by sources for the governmental activities for the fiscal years ended June 30, 2011 and 2010.

**Revenues by Source-Governmental Activities  
for the fiscal year ended June 30, 2011**



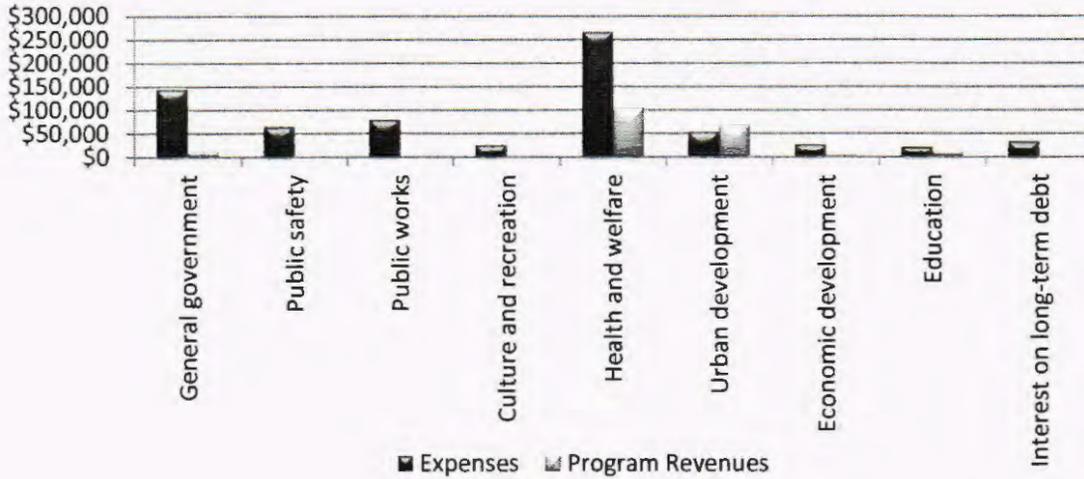
**Revenues by Source-Governmental Activities  
for the fiscal year ended June 30, 2010**



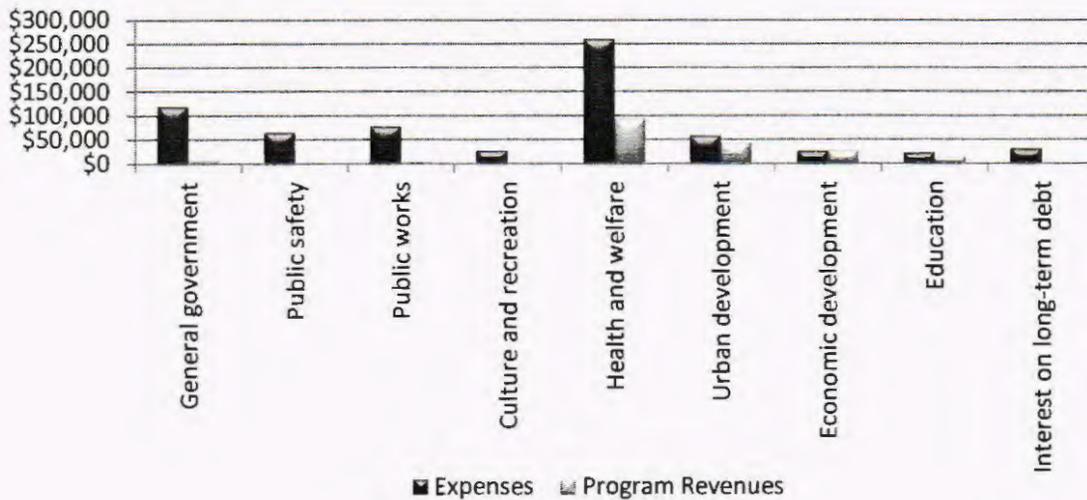
The Municipality's total expenses amounted to \$706.7 million and \$679.5 million for the fiscal years ended June 30, 2011 and 2010, respectively. Increase in total expenses was mainly due to increases in payroll and professional services.

The following chart summarizes the Municipality's program revenues compared to program expenses for the governmental activities for the fiscal years ended June 30, 2011 and 2010.

Expenses and Program Revenues-Governmental Activities  
for the fiscal year ended June 30, 2011 (In thousands)



Expenses and Program Revenues-Governmental Activities  
for the fiscal year ended June 30, 2010 (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 addition, fund balance for governmental funds provide classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$106.5 million, a net increase of \$7.0 million in comparison with the prior year. The combined fund balances include nonspendable fund balances amounting to \$26.5 million at June 30, 2011. This is the portion of fund balances that cannot be spent readily with cash or is legally or contractually required not to be spent (\$8.2 million) in the General Fund or they are not expected to be converted in cash soon enough to affect the current period (\$18.3 million). There are restricted fund balances amounting to \$60.2 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 (\$15.4 million); 2) to pay for capital projects (\$6.5 million); and 3) to pay for debt services (\$38.3 million). There are committed fund balances amounting to \$64.4 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 (\$0.2 million) and; 2) to pay for capital projects (\$64.2 million). Accordingly, since there is an excess of nonspendable, restricted and committed fund balances over total fund balances, a negative unassigned fund balance of \$44.6 million was reported in the governmental funds at June 30, 2011.

Governmental funds include the general fund, which is the main operating fund of the Municipality. As of June 30, 2011 and 2010, the General Fund has an accumulated deficit of \$16,183,607 and \$16,845,203 (as restated), respectively. Key factors in the decrease of General Fund's deficit are as follows:

- ❖ Increase of \$6.8 million in total revenues.
- ❖ Increase of \$9.7 million in total expenditures.
- ❖ Other financing sources of \$25.4 million
- ❖ A fund reclassification of \$1.6 million

Increase of \$6.8 million in total revenues was mainly due to the increase of \$7.6 million, \$6.7 million and \$5.3 million in intergovernmental revenues, charges for services and construction excise tax, net of decrease of approximately \$12.6 million in property taxes.

The increase of intergovernmental revenue was related to the increase in contributions in lieu of taxes from PREPA during the current year. The increase in charges for services is directly related with the approval of new medical and facilities charge rates and fees. The increase in construction excise tax is mainly due to the investment in the public sector for buildings and infrastructure in San Juan. The decrease in property tax revenues was mainly due to the difference of prior year and current year incentive plan collections.

The increase of \$9.7 million in expenditures was mainly due to increases in general government expenditures such as insurance, workmen compensation, pension cost and utilities.

Other financing sources amounting to \$25.4 million result from the proceeds of long-term debt issued.

During the current year the Municipality undertook a comprehensive evaluation of its fund structure according to the modifications made by GASB Statement No. 54 to the definitions of special revenue funds and the types of activities the Municipality may choose to report in those funds. As a result of such evaluation, on July 1, 2010 the Municipality recorded a prior-period adjustment of \$1.6 million to reclassify various funds previously recorded within the general fund that were reclassified as non-major special revenue funds.

Governmental funds also include the Debt Service Fund. The fund balance of the Debt Service Fund as of June 30, 2011 and 2010 amounted to \$38.2 million and \$25.0 million, respectively. The increase of \$13.2 million in the fund balance of the Debt Service Fund is the result of revenues from the special ad valorem tax restricted for debt service and accounted for in the Debt Service Fund of \$84.5 million net of payment of principal and interest of \$71.3 million.

### **Proprietary Fund**

The proprietary fund financial statements present the financial position, results of operations and cash flows of the International Center fund (InCF), which accounts for the leasing operations and maintenance of a real estate property. The most significant transactions related to this fund during the current fiscal year were the issuance of \$55 million in revenue bonds used to finance the acquisition of the real property currently owned by the fund.

At June 30, 2011, the total assets of the proprietary fund amounted to \$56.1 million of which \$54.6 million represents capital assets, net of accumulated depreciation, while \$1.5 million represents cash in commercial banks. The total liabilities at year-end amounted to \$56.3 million, consisting principally of revenue bonds payable of \$55.0 million, and interest payable of \$1.3 million.

From the period of inception, December 15, 2010 to June 30, 2011, the proprietary fund collected rental service charges amounting to \$1.5 million, while the operating expenses of the fund amounted to \$0.5 million.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The Municipality approved an original budget for the General Fund of \$495.3 million. During the year, there was one amendment to include changes in revenues that were identified during the course of the fiscal year based on current developments that affected the Municipality's finances. In addition, there were transfers of appropriations between the original and final budget due to changes in departments' budgeted expenditures.

On the budgetary basis, actual revenues of the General Fund for the fiscal year ended June 30, 2011 were \$520.3 million while actual expenditures were \$511.1 million. Accordingly, as a result of the tighter controls imposed by the Municipality's management, there was an excess of actual revenues over expenditures of approximately \$9.3 million.

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

#### **Capital Assets**

The Municipality's investment in capital assets as of June 30, 2011 and 2010 amounted to approximately \$709.2 million and \$651.4 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.

Land	\$ 100,704	\$ 97,555	\$ 18,624	\$ -	\$ 119,328	\$ 97,555
Works of art	2,224	2,224	-	-	2,224	2,224
Buildings and building improvements	261,327	262,939	35,992	-	297,319	262,939
Site improvements	74,368	79,112	-	-	74,368	79,112
Infrastructure	174,604	171,441	-	-	174,604	171,441
Equipment and vehicles	12,915	9,361	-	-	12,915	9,361
Construction in progress	28,463	28,769	-	-	28,463	28,769
<b>Total</b>	<b>\$ 654,605</b>	<b>\$ 651,401</b>	<b>\$ 54,616</b>	<b>\$ -</b>	<b>\$ 709,221</b>	<b>\$ 651,401</b>

The increase in the Municipality's capital assets was 8.9% over last year. Actual expenditures to purchase or construct capital assets from the Municipality's governmental activities for the fiscal years ended June 30, 2011 and 2010 were \$39.8 million and \$48.5 million, respectively. The acquisition of capital assets from the Municipality's business-types activities amounted \$55.0 million for the fiscal year ended June 30, 2011. Depreciation charges from the Municipality's governmental and business-type activities amounted to \$37.1 million and \$34.4 million for the fiscal years ended June 30, 2011 and 2010, 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, 2011 and 2010, the Municipality has approximately \$70.0 million and \$74.6 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 8 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 \$28.7 billion, the legal debt limit margin of the Municipality as of June 30, 2011, was \$2.9 billion. The Municipality's available legal debt margin as of June 30, 2011, was calculated by GDB to equal \$2.5 billion after subtracting from the legal margin the amount of \$394.1 million in outstanding general obligation debt as of June 30, 2011, and adding to the legal margin the amount in its Redemption Fund of \$35.5 million as of June 30, 2011.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity." Act No. 64 of July 3, 1996, as amended, provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Debt Service Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("payment capacity"). The rating assigned is BBB/Stable 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 2011, the Municipality issued bonds and notes amounting to \$52.1million to provide for construction projects and equipment needs of the Municipality, and finance the current portion of an early retirement termination benefit. In addition, the Municipality issued a revenue bond of \$55.1 million to acquire a real estate for it's business-type activities. General obligation debt includes bonds, notes and mortgage as shown in the table below:

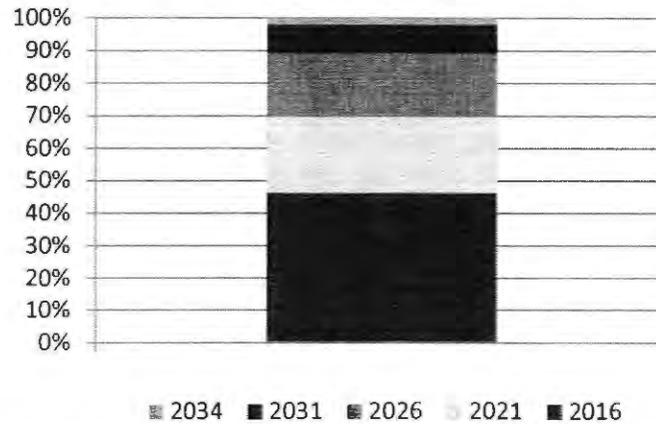
<b>General Outstanding Debt (in thousands)</b>						
<b>As of June 30,</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Bonds payable	\$ 394,138	\$ 410,636	\$ -	\$ -	\$ 394,138	\$ 410,636
Bond anticipation notes	1,873	-	-	-	1,873	-
Notes payable	228,856	217,525	-	-	228,856	217,525
Revenue bonds	-	-	55,072	-	55,072	-
Mortgage payable	3,836	4,177	-	-	3,836	4,177
<b>Total</b>	<b>\$ 628,703</b>	<b>\$ 632,338</b>	<b>\$ 55,072</b>	<b>\$ -</b>	<b>\$ 683,775</b>	<b>\$ 632,338</b>

At June 30, 2011, the Municipality had \$394.1 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 2011 (in thousands)</b>	
<b>Fiscal Years</b>	<b>Principal Amortization</b>
2012-2016	\$ 182,199
2017-2021	92,198
2022-2026	77,425
2027-2031	33,686
2032-2036	8,630
<b>Total</b>	<b>\$ 394,138</b>

As can be seen in the following chart, approximately 89% of the Municipality's outstanding general obligation bonds will be retired within the next fifteen (15) years.

### GOB Principal Amortization



The Municipality has various outstanding notes payable amounting to \$228.9 million at June 30, 2011. 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, 2011.

Additional details regarding the Municipality's long-term debt can be found in Note 12 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, 2011. These factors were considered when preparing the Municipality's budget for the 2011-2012 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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MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

STATEMENT OF NET ASSETS

As of June 30, 2011

	Governmental Activities	Business Type Activities	Total Primary Government
<b>ASSETS</b>			
Cash in commercial banks	\$ 47,546,355	\$ -	\$ 47,546,355
Cash with fiscal agent	198,131,483	-	198,131,483
Accounts receivable:			
Property tax	18,747,993	-	18,747,993
Municipal license tax	6,390,235	-	6,390,235
Sales tax	7,012,754	-	7,012,754
Construction excise tax	5,000,000	-	5,000,000
Intergovernmental	24,437,009	-	24,437,009
Other	7,751,379	-	7,751,379
Loans receivable, net	10,886,938	-	10,886,938
Inventories	8,190,628	-	8,190,628
Deferred charges, net	2,108,522	-	2,108,522
Real estate held for sale	175,201	-	175,201
Other assets	7,452,603	-	7,452,603
Restricted cash in commercial banks	2,515,357	1,528,301	4,043,658
Capital assets not being depreciated	131,391,379	18,624,329	150,015,708
Capital assets being depreciated, net	523,213,997	35,992,016	559,206,013
Total assets	<u>1,000,951,833</u>	<u>56,144,646</u>	<u>1,057,096,479</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	71,024,297	-	71,024,297
Intergovernmental payables	4,126,635	-	4,126,635
Deferred revenues:			
Municipal license tax	96,491,418	-	96,491,418
Federal grant revenues	5,118,730	-	5,118,730
Bonds and interest payable	61,000,618	1,274,304	62,274,922
Noncurrent liabilities:			
Due within one year	89,173,218	520,000	89,693,218
Due in more than one year	663,814,885	54,551,940	718,366,825
Total liabilities	<u>990,749,801</u>	<u>56,346,244</u>	<u>1,047,096,045</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	273,582,683	-	273,582,683
Restricted for:			
Debt service	38,273,407	-	38,273,407
Other purposes	14,588,525	-	14,588,525
Unrestricted	(316,242,583)	(201,598)	(316,444,181)
Total net assets	<u>\$ 10,202,032</u>	<u>\$ (201,598)</u>	<u>\$ 10,000,434</u>

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

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 143,281,513	\$ 9,720,804	\$ 1,476,711	\$ -	\$ (132,083,998)	\$ -	\$ (132,083,998)
Public safety	63,909,738	789,462	1,351,461	-	(61,768,815)	-	(61,768,815)
Public works	78,562,145	10,406	956,595	6,329,768	(71,265,376)	-	(71,265,376)
Culture and recreation	24,001,051	2,031,000	-	-	(21,970,051)	-	(21,970,051)
Health and welfare	264,979,765	45,153,219	57,975,842	-	(161,850,704)	-	(161,850,704)
Urban development	52,231,792	2,081,471	64,960,746	-	14,810,425	-	14,810,425
Economic development	26,033,334	3,484,666	1,683,567	-	(20,865,101)	-	(20,865,101)
Education	20,202,797	5,028,898	8,082,911	-	(7,090,988)	-	(7,090,988)
Interest on long-term debt	31,800,672	-	-	-	(31,800,672)	-	(31,800,672)
Total governmental activities	705,002,807	68,299,926	136,487,833	6,329,768	(493,885,280)	-	(493,885,280)
Business-type activities:							
International Center	1,730,193	1,528,595	-	-	-	(201,598)	(201,598)
<b>Total</b>	<b>\$ 706,733,000</b>	<b>\$ 69,828,521</b>	<b>\$ 136,487,833</b>	<b>\$ 6,329,768</b>	<b>(493,885,280)</b>	<b>(201,598)</b>	<b>(494,086,878)</b>
General revenues:							
Property taxes					237,818,710	-	237,818,710
Municipal license tax					153,974,460	-	153,974,460
Sales tax					56,404,967	-	56,404,967
Construction and other local taxes					21,985,853	-	21,985,853
Grants and contributions not restricted to specific programs					38,030,597	-	38,030,597
Interest income					2,565,220	-	2,565,220
Other					6,645,772	-	6,645,772
Total general revenues					517,425,579	-	517,425,579
Net change in net assets					23,540,299	(201,598)	23,338,701
Net assets at beginning of year					(13,338,267)	-	(13,338,267)
Net assets at end of year					\$ 10,202,032	\$ (201,598)	\$ 10,000,434

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

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

BALANCE SHEET - GOVERNMENTAL FUNDS

As of June 30, 2011

	General Fund	Debt Service Funds	Other Governmental Funds	Total
<b>ASSETS</b>				
Cash in commercial banks	\$ 3,604,438	\$ -	\$ 43,941,917	\$ 47,546,355
Cash with fiscal agent	5,035,216	102,890,372	90,205,895	198,131,483
Accounts receivable:				
Property tax	17,118,988	1,629,005	-	18,747,993
Municipal license tax	6,390,235	-	-	6,390,235
Sales tax	7,012,754	-	-	7,012,754
Construction excise tax	5,000,000	-	-	5,000,000
Intergovernmental	3,682,830	-	20,754,179	24,437,009
Other	7,101,545	-	649,834	7,751,379
Loans receivable, net	-	-	10,886,938	10,886,938
Due from other funds	60,784,872	-	791,778	61,576,650
Inventories	8,166,234	-	24,394	8,190,628
Real estate held for sale	-	-	175,201	175,201
Other	7,452,603	-	-	7,452,603
Restricted cash in commercial banks	-	-	2,515,357	2,515,357
Total assets	<u>\$ 131,349,715</u>	<u>\$ 104,519,377</u>	<u>\$ 169,945,493</u>	<u>\$ 405,814,585</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 47,544,884	\$ -	\$ 23,479,413	\$ 71,024,297
Intergovernmental payables	3,497,020	-	629,615	4,126,635
Due to other funds	-	5,245,352	56,331,298	61,576,650
Matured bonds and interest payable	-	61,000,618	-	61,000,618
Deferred revenues:				
Municipal license tax	96,491,418	-	-	96,491,418
Federal grant revenues	-	-	5,118,730	5,118,730
Total liabilities	<u>147,533,322</u>	<u>66,245,970</u>	<u>85,559,056</u>	<u>299,338,348</u>
Fund balances (deficit):				
Nonspendable	15,618,837	-	10,911,332	26,530,169
Restricted	3,297,457	38,273,407	18,615,124	60,185,988
Committed	245,340	-	64,147,256	64,392,596
Unassigned	(35,345,241)	-	(9,287,275)	(44,632,516)
Total fund balances (deficit)	<u>(16,183,607)</u>	<u>38,273,407</u>	<u>84,386,437</u>	<u>106,476,237</u>
Total liabilities and fund balances (deficit)	<u>\$ 131,349,715</u>	<u>\$ 104,519,377</u>	<u>\$ 169,945,493</u>	<u>\$ 405,814,585</u>

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

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES (DEFICIT) – GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2011

	General Fund	Debt Service Funds	Other Governmental Funds	Total
<b>REVENUES</b>				
Property taxes	\$ 161,024,007	\$ 76,794,703	\$ -	\$ 237,818,710
Municipal license tax	153,974,460	-	-	153,974,460
Sales tax	48,713,261	7,691,706	-	56,404,967
Construction excise tax	21,985,853	-	-	21,985,853
License and permits	2,044,147	-	-	2,044,147
Charges for Services	57,218,872	-	2,135,798	59,354,670
Fine and forfeitures	6,901,109	-	-	6,901,109
Interest	1,867,437	32,891	664,892	2,565,220
Intergovernmental				
Federal	-	-	142,588,992	142,588,992
Local	38,030,597	-	228,609	38,259,206
Other	3,178,931	-	3,466,841	6,645,772
Total revenues	<u>494,938,674</u>	<u>84,519,300</u>	<u>149,085,132</u>	<u>728,543,106</u>
<b>EXPENDITURES</b>				
Current				
General Government	137,665,108	-	13,135,017	150,800,125
Public Safety	59,943,134	-	1,362,658	61,305,792
Public works	66,529,470	-	1,270,368	67,799,838
Culture and recreation	15,002,740	-	1,210,190	16,212,930
Health and welfare	204,984,595	-	54,079,559	259,064,154
Urban development	4,713,292	-	47,113,095	51,826,387
Economic development	9,659,584	-	10,863,515	20,523,099
Education	10,098,640	-	8,897,868	18,996,508
Capital outlays	1,549,393	-	38,288,419	39,837,812
Debt Service				
Principal	4,165,436	47,923,000	3,670,736	55,759,172
Interest	5,352,308	23,347,265	3,101,099	31,800,672
Total expenditures	<u>519,663,700</u>	<u>71,270,265</u>	<u>182,992,524</u>	<u>773,926,489</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(24,725,026)</u>	<u>13,249,035</u>	<u>(33,907,392)</u>	<u>(45,383,383)</u>
<b>OTHER FINANCING SOURCES:</b>				
Proceeds from bonds issued	25,386,622	-	26,738,060	52,124,682
<b>NET CHANGE IN FUND BALANCES (DEFICIT)</b>	661,596	13,249,035	(7,169,332)	6,741,299
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR, AS RESTATED</b>	(16,845,203)	25,024,372	91,555,769	99,734,938
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u>\$ (16,183,607)</u>	<u>\$ 38,273,407</u>	<u>\$ 84,386,437</u>	<u>\$ 106,476,237</u>

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30/04/2011

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

**International  
Center**

**ASSETS**

Current assets	
Restricted cash in commercial banks	\$ 1,528,301
Noncurrent assets	
Capital assets not being depreciated	18,624,329
Capital assets being depreciated, net	35,992,016
Total noncurrent assets	<u>54,616,345</u>
Total assets	<u>56,144,646</u>

**LIABILITIES**

Current liabilities	
Revenue bonds interest payable	<u>1,274,304</u>
Noncurrent liabilities:	
Due within one year	520,000
Due in more than one year	54,551,940
Total noncurrent liabilities	<u>55,071,940</u>
Total liabilities	<u>56,346,244</u>

**NET ASSETS**

Unrestricted	(201,598)
Total net assets	<u>\$ (201,598)</u>

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

	<b>International Center</b>
<b>OPERATING RENT REVENUES</b>	
Rent charges for services	\$ 1,528,595
<b>OPERATING EXPENSES</b>	
Depreciation expense	<u>455,595</u>
<b>OPERATING INCOME</b>	1,073,000
<b>NONOPERATING EXPENSES</b>	
Interests on long-term debt	<u>(1,274,598)</u>
<b>NET CHANGE IN NET ASSETS AND NET ASSETS, END OF PERIOD</b>	<u>\$ (201,598)</u>

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

		<b>International Center</b>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Receipts from lease tenants		<u>\$ 1,528,595</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds of revenue bonds		55,071,940
Acquisition of capital assets		(55,071,940)
Charges and interest paid		(294)
Net cash used in capital and related financing activities		<u>(294)</u>
<b>NET INCREASE IN RESTRICTED CASH IN COMMERCIAL BANKS AND RESRICTED CASH IN COMMERCIAL BANKS, END OF PERIOD</b>		
		<u>\$ 1,528,301</u>
<b>RECONCILIATION OF OPERATING INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income		\$ 1,073,000
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation expense		<u>455,595</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<u>\$ 1,528,595</u>

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

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUND,  
AND THE STATEMENT OF NET ASSETS - PROPRIETARY FUND TO THE  
STATEMENT OF NET ASSETS

As of June 30, 2011

	Governmental Activities	Business-type Activities	Total
Total fund balances/net assets as reported in the balance sheet - governmental funds, and as reported in the statement of net assets - proprietary fund	\$ 106,476,237	\$ (201,598)	\$ 106,274,639
Amounts reported for governmental and business-type 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	100,703,974	-	100,703,974
Building and site improvements, net of depreciation	335,695,572	-	335,695,572
Infrastructure, net of depreciation	174,603,660	-	174,603,660
Equipment and vehicles, net of depreciation	12,914,765	-	12,914,765
Works of art	2,224,365	-	2,224,365
Construction in progress	28,463,040	-	28,463,040
Total	<u>654,605,376</u>	<u>-</u>	<u>654,605,376</u>
Deferred charges, net of accumulated amortization, are not available to pay for current period expenditures and, therefore, are deferred in the funds.	2,108,522	-	2,108,522
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	(394,138,000)	-	(394,138,000)
Bond anticipation note	(1,873,060)	-	(1,873,060)
Mortgage payable	(3,836,169)	-	(3,836,169)
Notes payable	(228,856,202)	-	(228,856,202)
Compensated absences	(52,551,245)	-	(52,551,245)
Pension-related debt	(38,071,989)	-	(38,071,989)
Claims and judgments	(6,100,000)	-	(6,100,000)
Landfill obligation	(17,100,000)	-	(17,100,000)
Other liabilities	(10,461,438)	-	(10,461,438)
Total	<u>(752,988,103)</u>	<u>-</u>	<u>(752,988,103)</u>
Total net assets of governmental and business-type activities	<u>\$ 10,202,032</u>	<u>\$ (201,598)</u>	<u>\$ 10,000,434</u>

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

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES/EXPENSES AND CHANGES IN FUND BALANCES  
(DEFICIT)/NET ASSETS OF GOVERNMENTAL FUNDS AND  
PROPRIETARY FUND TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2011

	Governmental Activities	Business-type Activities	Total
Net change in fund balances (deficit)/net assets as reported in the statement of revenues, expenditures/expenses and changes in fund balances (deficit)/net assets - governmental funds and proprietary fund	\$ 6,741,299	\$ (201,598)	\$ 6,539,701
Amounts reported for governmental and business-type 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	39,837,812	-	39,837,812
Current year depreciation	(36,633,287)	-	(36,633,287)
	<u>3,204,525</u>	<u>-</u>	<u>3,204,525</u>
The issuance of long-term debt provides current financial resources to governmental funds. 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.			
Proceeds from issuance of long-term debt:			
Bonds	(24,865,000)	-	(24,865,000)
Bond anticipation notes	(1,873,060)	-	(1,873,060)
Notes payable	(25,386,622)	-	(25,386,622)
Bond issue costs	116,978	-	116,978
	<u>(52,007,704)</u>	<u>-</u>	<u>(52,007,704)</u>
The repayments or deductions of the following long-term obligations are recorded as expenditures in the governmental funds, however, are recorded as reductions of their respective liabilities in the statement of net assets:			
Bonds	41,363,000	-	41,363,000
Mortgage payable	340,736	-	340,736
Notes payable	14,055,436	-	14,055,436
	<u>55,759,172</u>	<u>-</u>	<u>55,759,172</u>
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	(304,138)	-	(304,138)
Change in pension-related debt	9,019,190	-	9,019,190
Landfill obligation	900,000	-	900,000
Compensated absences	(3,649,286)	-	(3,649,286)
Other liabilities	3,860,505	-	3,860,505
Other miscellaneous transactions	16,736	-	16,736
	<u>9,843,007</u>	<u>-</u>	<u>9,843,007</u>
Net change in net assets of governmental activities and business-type activities	<u>\$ 23,540,299</u>	<u>\$ (201,598)</u>	<u>\$ 23,338,701</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.

The accompanying basic financial statements present the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality at June 30, 2011, in conformity with Accounting Principles Generally Accepted in the United States of America (USGAAP), as prescribed by the Governmental Accounting Standards Board (GASB). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2011, in conformity with USGAAP. Furthermore, the basic financial statements referred to above present the cash flows of the proprietary fund for the period from inception December 15, 2010 to June 30, 2011 in conformity with USGAAP.

**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 financially accountable.

Pursuant to the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14*, 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, 2011.

## 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.

### A. **Government-wide (GWFS) and Fund financial statements (FFS)**

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) reports 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 governmental fund financial statements (GFFS) (i.e., the balance sheet and the statement of revenues, expenditures and changes in fund balances) provides information about the financial position and results of 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 it meets both of the following criteria:

- *Ten percent criterion* –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.
- *Five percent criterion* –Its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 5 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental and enterprise funds.

For the purposes of applying the aforementioned major fund criteria, no eliminations of interfund balances have been made. In the case of governmental funds, 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 case of enterprise funds, when applying the aforementioned major fund criteria, revenues and expenses include all operating statement revenues and expenses (both operating and nonoperating) including capital contributions, special items, but not extraordinary items.

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 certain notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension liability and other long-term obligations) are only accounted for in the accompanying government-wide 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 projects. 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 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.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it 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, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.

- 4) The proprietary fund financial statements (statement of net assets – proprietary fund, statement of revenues, expenses and changes in fund net assets – proprietary fund, and statement of cash flows – proprietary fund) present the financial position, results of operations and cash flows of the

International Center fund (InCF), which accounts for the leasing operations and maintenance of a real estate property acquired on December 15, 2010 through the issuance of revenue bonds amounting to \$55,071,940.

In addition to the required financial reporting requirements referred to above, the accompanying basic financial statements are accompanied by the Reconciliation of the Balance Sheet – Governmental Funds, and Reconciliation of Statement of Net assets – Proprietary Fund to the GWFS Statement of Net Assets; and the Reconciliation of the Statements of Revenues, Expenditures\Expenses and Changes in Fund Balances\Net Assets – Governmental Funds and Proprietary Funds to the GWFS Statement of Activities.

- 5) The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
- 6) 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, 2011. 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, 2011. At June 30, 2011, all revenue sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within 60 days following the end of the fiscal period, unless unusual circumstances justify a greater period. The Municipality understands that the unusual criteria was met through the approval of Act No. 94 by the Legislature of Puerto Rico which established an incentive plan for the payment of real and personal property tax dues. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interest of the unpaid principal of past-due property tax liability. The period that tax payers have to enjoy for such benefit extends until October 11, 2011. The unpaid property taxes covered under this Act are those related to fiscal year 2010 and earlier (for personal property) and for 2009 and earlier (for real property). In addition, the Municipality created the Municipal Internal Revenue Enforcement Division (ARIM), within the Finance Department, dedicated exclusive to improve revenues through aggressive collection methods, including the prosecution of criminal charges to those taxpayers who violates the tax law. The incentive plan and ARIM justify the extension of the collection period for revenue recognition purposes from 60 to 360 days following June 30, 2011, as defined in NCGA Interpretation 3. The extension of the collection period is only applicable for the year ended June 30, 2011. The Municipality will continue with the collection period of 60 days beginning in July 1, 2011 unless other unusual circumstances arise.

Other revenue sources considered susceptible to accrual include 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.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2011.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) 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, 2011, which are recorded as governmental fund liabilities at June 30, 2011 which is the date when resources were available in the debt service fund.
- 2) Compensated absences, net pension liability, claims and judgments 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 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.

**Proprietary fund financial statements** – The accompanying proprietary fund financial statements (PFFS) are reported using the economic measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. Accordingly, the PFFS distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The major operating revenue of the Municipality's proprietary fund is from rent charges collected by the International Center fund from its warehousing and leasing facilities.

Pursuant to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the InCF has the option to elect and apply all nongovernmental financial accounting pronouncements issued after November 30, 1989 to its business-type activities and enterprise funds, unless these conflict with an applicable GASB pronouncement. The Municipality has elected not to follow nongovernmental financial accounting standards.

**C. Assets, liabilities and net assets**

1) *Cash, cash with fiscal agent and restricted cash:*

The Municipality's cash is composed of: (1) cash on hand, and (2) demand deposits in commercial banks and in the Government Development Bank of Puerto Rico (GDB).

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.

Restricted cash and cash equivalents in the proprietary fund represents resources set aside for the payment of the Municipality's debt service related to International Center, as established in the bond indentures.

2) *Receivables and payables:*

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

The carrying value of advances between funds, as reported in the fund financial statements, if any, are offset 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, 2011 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, 2011. These accounts receivable 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.

Pursuant to the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues of Intra-Entity Transfers of Assets and Future Revenues* (GASB 48), 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.

According to the criteria set forth by GASB. No. 48, there were no transactions involving receivables that should be reported as a sale as of and for the fiscal year ended June 30, 2011.

3) *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, 2011 since they are not expected to be converted to cash after the current fiscal year-end.

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

Loans receivable in the GFFS are presented at their net realizable value (outstanding principal balance reduced by an allowance for uncollectible loans). The allowance for uncollectible loans has been determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of the loans receivable. The carrying value of loans receivable is offset by nonspendable fund balance in the same amount in the other governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2011 since they are not expected to be currently converted to cash after the current fiscal year-end.

5) *Other assets:*

The carrying value of other assets are offset by nonspendable fund balance in the same amount in the general fund to indicate that such resources are not considered current available financial resources at June 30, 2011.

6) *Real Estate Held for Sale:*

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

The carrying value of real estate held for sale is offset by nonspendable fund balance in the same amount in the other governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2011 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 \$2.5 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 estimated 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.

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, 2011, 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, 2011 and collected within 90 days (October 11, 2011 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, and other long-term liabilities, such as vacations and sick leave (compensated absences), claims and judgments, long-term liabilities to other governmental entities and third parties, and municipal solid waste 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.

Principal and interest payments on bonds due on July 1, 2011 are recorded as governmental fund liabilities in the GFFS (debt service fund) when resources are available in the debt service funds (June 30, 2011).

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net assets, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

11) *Compensated absences:*

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. 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.

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, 2011 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 they mature (generally, when payment is due). Those liabilities are recorded in the accompanying statement of net assets as incurred, pursuant to the provisions of FASB Accounting Standards Codification 450, *Contingencies*.

13) *Estimated Liability for Municipal Solid Waste Landfill Closure and Post-closure Costs:*

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 when they mature (generally, when payment or related disbursements are due).

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 (when they mature, generally when payment or related disbursements are due).

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) *Fund balances:*

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 loans and notes 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, 2011.

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 as they are needed.

16) *Net Assets:*

Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributors, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designations of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

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. Accordingly, all non-capital long-term debts (such as a portion of bonds and notes payable) have been excluded from the computation since these were originally issued for certain purposes other than the acquisition, construction or improvement of capital assets. 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. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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.

17) *Interfund and intra-entity transactions:*

The Municipality has the following types of transactions among funds:

- a. *Transfers* - Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Inter-fund transfers are reported when incurred as other financing uses (Transfers-out) in the governmental fund making transfers and as other financing sources (Transfers-in) in the governmental fund receiving transfers.
- b. *Intra-Entity Transactions* - Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. For amounts not expected to be collected within a reasonable period of time, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as an operating transfer from the governmental fund that made the loan.

In the GFFS, inter-fund activity has not been eliminated, as permitted by USGAAP.

18) *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.

19) *Risk financing:*

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments made by the Municipality.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2011. Premiums are paid on a monthly basis

directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

Cost of insurance allocated to the Municipality for the fiscal year ended June 30, 2011 amounted to approximately \$10 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, 2011 amounted to approximately \$9 million.

20) *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.

21) *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.

22) *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.

23) *Future adoption of accounting pronouncements:*

The GASB has issued the following statements that have effective dates after June 30, 2011:

- a. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The requirements of this Statement are effective for the fiscal year commencing on July 1, 2011.
- b. GASB Statement No. 61, *The Financial Reporting Entity* (GASB 61). The requirements of this Statement are effective for the fiscal year commencing after June 15, 2012.
- c. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). The requirements of this Statement are effective for the fiscal year commencing on July 1, 2012.
- d. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The requirements of this Statement are effective for the fiscal year commencing after December 15, 2011.
- e. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53* (GASB 64). The requirements of this Statement are effective for the fiscal year commencing after June 15, 2011.

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

### 3. Deposits

The Municipality's deposits at June 30, 2011 are composed of: (1) demand deposits in commercial banks and (2) demand deposits in the Government Development Bank for Puerto Rico (GDB, fiscal agent).

The Municipality follows the practice of pooling cash. At June 30, 2011, the pool cash account in commercial banks had a balance of \$47.5 million of which \$3.6 million, \$10.5 million, and \$33.4 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 with fiscal agent in the debt service fund consists principally of property and sales tax collections amounting to \$102.9 million that are restricted for the payment of the Municipality's debt service, as required by law. Cash with fiscal agent of \$5.0 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 \$90.2 million in other governmental funds 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 \$43.9 million, represents the balance of interest and non-interest bearing accounts restricted to finance the operations of various federal and state funded programs and a revolving loan program. Restricted cash in other governmental funds amounting to \$2.5 million represents mortgage escrow deposits, reserve for replacement and residual receipts deposited with the mortgagee.

Restricted cash in commercial banks of \$1.5 million in the proprietary fund represents resources set aside for the payment of the Municipality's debt service related to International Center, as established in the bond indentures.

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, 2011:

- A. *Credit risk* – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. No investments in debt or equity securities were made during the fiscal year ended June 30, 2011. 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, 2011.
- 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, 2011, (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, 2011, the interest rate risk associated with the Municipality's cash is considered low since there is no investment in certificates of deposits, 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, 2011, the Municipality has balances deposited in commercial banks amounting to \$50.1 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 \$199.0 million (\$202.1 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, 2011. 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, 2011, 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, 2011.

#### 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, 2011 was 8.53 percent (of which taxpayers pay 8.33 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, 2010 was 10.53 percent (of which 10.33 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 3.50 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

On July 10, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 37 for the purpose, among others, to: (1) increase the real property assessed value by ten times; (2) decrease the real property tax rate by ten times; and (3) increase the exempt portion of real property tax from the first \$15,000 of the assessed value to \$150,000. These provisions are effective only for fiscal years 2010, 2011 and 2012.

The composition of property taxes receivable is as follows at June 30, 2011:

	General Fund	Debt Service Funds	Total
Property tax receivable	\$ 55,839,380	\$ 1,629,005	\$ 57,468,385
Less: allowance for doubtful accounts	(38,720,392)	-	(38,720,392)
Net property taxes receivable	<u>\$ 17,118,988</u>	<u>\$ 1,629,005</u>	<u>\$ 18,747,993</u>

#### 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 \$3 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2011, 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, 2011. Municipal license taxes collected prior to June 30, 2011 but pertaining to the next fiscal year are recorded as deferred revenues.

**B. 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 ten 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, 2011, but pertaining to current year period.

**C. 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, 2011, but pertaining to current year period.

**D. Intergovernmental Receivables**

The composition of intergovernmental receivables in the general fund at June 30, 2011 is:

	General Fund	Other Governmental Funds	Total
State and local intergovernmental entities:			
Puerto Rico Electrical Power Authority (PREPA)	\$ 3,328,814	\$ -	\$ 3,328,814
Others	354,016	-	354,016
Total state and local intergovernmental entities	<u>3,682,830</u>	<u>-</u>	<u>3,682,830</u>
Federal grants and contributions:			
Head Start	-	4,650,654	4,650,654
Workforce Investment Act	-	2,470,199	2,470,199
Community Development Block Grant	-	2,303,688	2,303,688
Community Services Block Grant	-	2,217,416	2,217,416
Federal Transit Administration	-	2,090,401	2,090,401
HIV Emergency Relief Formula Grant	-	1,217,684	1,217,684
Supportive Housing Program	-	690,391	690,391
Housing Opportunities for Persons with AIDS	-	534,507	534,507
Others	-	4,579,239	4,579,239
Total federal grants and contributions	<u>-</u>	<u>20,754,179</u>	<u>20,754,179</u>
Total intergovernmental receivables	<u>\$ 3,682,830</u>	<u>\$ 20,754,179</u>	<u>\$ 24,437,009</u>

Amounts due from the PREPA represents the net receivable from the excess of contributions in lieu of taxes of \$34,587,677 charged by the Municipality over the actual electric power consumption expense/expenditure of \$31,258,863 charged by PREPA for the fiscal year ended June 30, 2011.

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.

**E. Other**

Other accounts receivable as of June 30, 2011, net of allowance for doubtful accounts of \$1,464,058 are as follows:

	General Fund	Other Governmental Funds	Total
Medical Plans	\$ 6,576,524	\$ -	\$ 6,576,524
Other	525,021	649,834	1,174,855
Total other receivables	<u>\$ 7,101,545</u>	<u>\$ 649,834</u>	<u>\$ 7,751,379</u>

5. Other Assets

Other assets consist of a claim receivable related to the disputed allocation and liquidation of property tax collections among all municipalities of the Commonwealth of Puerto Rico for the fiscal year ended June 30, 2011. The amounts recorded as other assets represent the portion of the Municipality's property tax collections that remained unremitted as of June 30, 2011.

6. Loans Receivable, Net

Loans at June 30, 2011 amounting to \$10,886,938 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.

7. Interfund Transactions

Interfund receivables and payables at June 30, 2011 are summarized as follows:

Receivable Fund	Payable Fund		Total
	Debt Service Funds	Other Governmental Funds	
General	\$ 5,245,352	\$ 55,539,520	\$ 60,784,872
Other Governmental Funds	-	791,778	791,778
Total	\$ 5,245,352	\$ 56,331,298	\$ 61,576,650

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, 2011, there were approximately \$5.2 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.

8. 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, 2011 was as follows:

<b>Governmental Activities:</b>	<b>Balance July 1, 2010</b>	<b>Reclassifications</b>	<b>Additions</b>	<b>Retirements and Adjustments</b>	<b>Balance June 30, 2011</b>
Capital assets, not being depreciated:					
Land	\$ 97,554,632	\$ -	\$ 3,149,342	\$ -	\$ 100,703,974
Works of art	2,224,365	-	-	-	2,224,365
Construction in progress	28,769,020	(27,889,362)	27,583,382	-	28,463,040
Total capital assets not being depreciated	<u>128,548,017</u>	<u>(27,889,362)</u>	<u>30,732,724</u>	<u>-</u>	<u>131,391,379</u>
Capital assets, being depreciated:					
Buildings and building improvements	417,793,268	12,735,940	2,611,733	-	433,140,941
Site improvements	169,970,713	3,235,234	934,694	-	174,140,641
Infrastructure	232,015,807	11,918,188	328,731	-	244,262,726
Equipment and vehicles	79,409,827	-	5,229,930	(1,150,080)	83,489,677
Intangible	3,825,426	-	-	-	3,825,426
Total capital assets being depreciated	<u>903,015,041</u>	<u>27,889,362</u>	<u>9,105,088</u>	<u>(1,150,080)</u>	<u>938,859,411</u>
Less accumulated depreciation for:					
Buildings and building improvements	(154,853,881)	-	(16,959,798)	-	(171,813,679)
Site improvements	(90,859,159)	-	(8,913,172)	-	(99,772,331)
Infrastructure	(60,575,331)	-	(9,083,735)	-	(69,659,066)
Equipment and vehicles	(70,048,410)	-	(1,676,582)	1,150,080	(70,574,912)
Intangible	(3,825,426)	-	-	-	(3,825,426)
Total accumulated depreciation	<u>(380,162,207)</u>	<u>-</u>	<u>(36,633,287)</u>	<u>1,150,080</u>	<u>(415,645,414)</u>
Total capital assets being depreciated, net	<u>522,852,834</u>	<u>27,889,362</u>	<u>(27,528,199)</u>	<u>-</u>	<u>523,213,997</u>
Governmental activities capital assets, net	<u>\$ 651,400,851</u>	<u>\$ -</u>	<u>\$ 3,204,525</u>	<u>\$ -</u>	<u>\$ 654,605,376</u>
<b>Business-type Activities:</b>					
Capital assets, not being depreciated:					
Land	\$ -	\$ -	\$ 18,624,329	\$ -	\$ 18,624,329
Total capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>18,624,329</u>	<u>-</u>	<u>18,624,329</u>
Capital assets, being depreciated:					
Buildings and building improvements	-	-	36,447,611	-	36,447,611
Total capital assets being depreciated	<u>-</u>	<u>-</u>	<u>36,447,611</u>	<u>-</u>	<u>36,447,611</u>
Less accumulated depreciation for:					
Buildings and building improvements	-	-	(455,595)	-	(455,595)
Total accumulated depreciation	<u>-</u>	<u>-</u>	<u>(455,595)</u>	<u>-</u>	<u>(455,595)</u>
Total capital assets being depreciated, net	<u>-</u>	<u>-</u>	<u>35,992,016</u>	<u>-</u>	<u>35,992,016</u>
Business-type activities capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,616,345</u>	<u>\$ -</u>	<u>\$ 54,616,345</u>

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

<b>Governmental activities:</b>	<b>Amount</b>
General government	\$ 5,006,843
Public safety	1,214,679
Public works	10,819,414
Culture and recreation	7,635,452
Health and welfare	5,037,974
Urban development	291,879
Economic development	5,468,628
Education	1,158,418
Total depreciation expense – governmental activities	<u>\$ 36,633,287</u>

<b>Business-type activities</b>	<b>Amount</b>
International Center	\$ 455,595
Total depreciation expense – business-type activities	<u>\$ 455,595</u>

9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2011 are summarized as follows:

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Accounts payable	\$ 46,180,156	\$ 22,584,898	\$ 68,765,054
Accrued liabilities	1,364,728	894,515	2,259,243
Total	<u>\$ 47,544,884</u>	<u>\$ 23,479,413</u>	<u>\$ 71,024,297</u>

10. Intergovernmental Payables

Intergovernmental payables at June 30, 2011 are summarized as follows:

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Puerto Rico Employees Retirement System	\$ 2,026,840	\$ -	\$ 2,026,840
Puerto Rico Aqueduct and Sewer Authority	680,000	9,215	689,215
Other	790,180	620,400	1,410,580
Total	<u>\$ 3,497,020</u>	<u>\$ 629,615</u>	<u>\$ 4,126,635</u>

11. Deferred Revenues

A. **Municipal License Tax**

The deferred revenues of approximately \$96.5 million in the general fund at June 30, 2011 relate to municipal license tax collected in fiscal year 2011 that will be earned in fiscal year 2012.

B. **Federal Government**

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

Program Description	Amount
Section 8 Housing Choice Vouchers	\$ 1,177,310
Child and Adult Care Food Program	762,348
Department of Treasury Equitable Sharing	638,569
Department of Justice Equitable Sharing	147,809
Others	2,392,694
<b>Total</b>	<b>\$ 5,118,730</b>

12. Long-Term Debt

Long-term liability activity for the year ended June 30, 2011, was as follows:

Governmental activities	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 410,636,000	\$ 24,865,000	\$ (41,363,000)	\$ 394,138,000	\$ 39,106,000
Bond anticipation note	-	1,873,060	-	1,873,060	1,873,060
Mortgage payable	4,176,905	-	(340,736)	3,836,169	370,854
Notes payable	217,525,016	25,386,622	(14,055,436)	228,856,202	14,890,556
Compensated absences	48,901,959	8,290,181	(4,640,895)	52,551,245	4,500,000
Pension-related debt	47,091,179	21,823,243	(30,842,433)	38,071,989	25,632,748
Claims and judgments	6,100,000	699,432	(699,432)	6,100,000	1,000,000
Landfill obligation	18,000,000	-	(900,000)	17,100,000	900,000
Other liabilities	14,321,943	-	(3,860,505)	10,461,438	900,000
<b>Total governmental activities</b>					
long-term liabilities	<b>\$ 766,753,002</b>	<b>\$ 82,937,538</b>	<b>\$ (96,702,437)</b>	<b>\$ 752,988,103</b>	<b>\$ 89,173,218</b>

Business-type activities	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Revenue bonds payable and total business-type activities long-term debt	\$ -	\$ 55,071,940	\$ -	\$ 55,071,940	\$ 520,000

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, 2011 amounted to approximately \$28.7 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 2011, the Municipality issued bonds for approximately \$24.9 million.

Bonds payable outstanding at June 30, 2011 are as follows:

Description	Outstanding Amount
2011 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$24.9 million due in annual installments of \$2,875,000 to \$4,310,000, through July 1, 2017; with interest ranging from 6.5% to 7.5%	\$21,990,000
2010 general obligation bonds for the third payment of the early retirement termination benefit with an original amount of \$28.3 million due in annual installments of \$415,000 to \$2,365,000, through July 1, 2034; with interest ranging from 4.8% to 7.5%	27,400,000
2010 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$11.2 million due in annual installments of \$255,000 to \$1,025,000, through July 1, 2029; with interest ranging from 4.8% to 7.5%	10,675,000
2010 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 \$725,000 to \$1,340,000, through July 1, 2019; with interest ranging from 5.0% to 7.5%	8,550,000
2010 general obligation bonds for the acquisition, construction and improvements of various capital assets with an original amount of \$13.5 million due in annual installments of \$340,000 to \$1,260,000, through July 1, 2028; with interest ranging from 4.8% to 7.5%	12,800,000
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%	4,430,000

Description	Outstanding Amount
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%	15,530,000
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%	4,145,000
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%	18,640,000
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%	4,405,000
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%	5,310,000
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%	11,945,000
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%	20,528,000
2005 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$18.6 million due in annual installments of \$480,000 to \$1,585,000, through July 1, 2025; with interest ranging from 4.23% to 5.31%	15,235,000
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%	1,020,000
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%	14,285,000

Description	Outstanding Amount
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%	6,090,000
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%	16,220,000
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%	9,275,000
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%	44,560,000
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%	2,300,000
2000 serial bonds for the construction and improvements of various capital assets 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%	9,635,000
1999 general obligations bonds for the construction and improvements of various capital assets with an original amount of \$65.0 million due in annual installments of \$1,740,000 to \$5,885,000, through July 1, 2018; with interest ranging from 4.87% to 6.46%	33,920,000
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%	14,035,000
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%	27,445,000
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%	23,685,000

Description	Outstanding Amount
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%	<u>10,085,000</u>
Total	<u>\$394,138,000</u>

These bonds are payable from the special ad valorem property tax of three and a half percent (3.50%), 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 tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2010, 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
2012	\$ 39,106,000	\$ 23,918,926
2013	40,706,000	22,271,743
2014	34,508,000	19,931,958
2015	34,843,000	17,870,333
2016	33,036,000	15,354,834
2017-2021	92,198,000	54,276,555
2022-2026	77,425,000	30,157,379
2027-2031	33,686,000	9,764,662
2032-2034	8,630,000	1,686,217
Total	<u>\$ 394,138,000</u>	<u>\$ 195,232,607</u>

### C. Revenue Bonds Payable – Proprietary Fund

On December 15, 2010, the Municipality issued revenue bonds amounting to \$55,071,940 for the acquisition of an income-producing real estate property commonly known as International Center. The bonds are payable in twenty five (25) annual installments commencing on July 1, 2012 through July 1, 2036. The Municipality shall pay interests on the bonds at a rate per annum equal to 3.5 percentage points over the London Interbank Offered Rate (4.23% at June 30, 2011).

Pursuant to the provisions of the revenue bond indentures, the Municipality has pledged and assigned its right, title and interest in all future revenues to be produced in the operation and maintenance of the acquired property. In the event that such revenues are not sufficient to make all debt service payments of principal, interests and premium, if any, on the bonds, the Municipality will assign the necessary portion of its general revenues to cover the debt service payments due and payable. In addition, the acquired property is subject to a mortgage constituted as security for the obligations evidenced by the bonds issued.

The revenue bonds are subject to several positive and negative covenants that the Municipality must comply with at all times. The management of the Municipality understands that all debt covenants have been complied with, in all material respects, at June 30, 2011.

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

Year ending June 30,	Principal	Interest
2012	\$ 520,000	\$ 2,329,268
2013	570,000	2,307,274
2014	610,000	2,283,166
2015	660,000	2,257,366
2016	700,000	2,229,451
2017-2021	4,420,000	10,652,406
2022-2026	6,330,000	9,568,385
2027-2031	9,100,000	8,011,506
2032-2036	32,161,940	5,777,484
Total	<u>\$ 55,071,940</u>	<u>\$45,416,306</u>

#### D. Bond Anticipation Notes

On January 31, 2011, the Municipality issued bond anticipation notes (BANS) with an approved credit facility ceiling of \$100 million of which \$1.9 million have been borrowed at June 30, 2011. The purpose of the bond anticipation notes is to finance the acquisition, construction and improvement of major capital assets. The BANS accrue interests at a rate per annum equal to 1.5 percentage points over the prime rate with a floor of 6.0 percent.

The Municipality has the intention and capacity to payoff the BANS with a future long-term bond issuance to be made on or before January 31, 2016, the agreed maturity date of the BANS. Accordingly, the outstanding balance of these obligations has been recorded in the accompanying statement of net assets.

#### E. 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
2012	\$ 370,854	\$ 311,847
2013	403,634	279,067
2014	439,312	243,390
2015	478,143	204,560
2016	520,403	162,296
2017-2019	1,623,823	196,701
Total	<u>\$ 3,836,169</u>	<u>\$ 1,397,861</u>

**F. 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, 2011 approximates \$23.6 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% (3.73% at June 30, 2011) 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, 2011 approximates \$33.9 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% (3.73% at June 30, 2011). The outstanding balance as of June 30, 2011 approximates \$6.1 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 (3.73% at June 30, 2011). The outstanding balance as of June 30, 2011 approximates \$27.6 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% (3.73% at June 30, 2011). The proceeds of the SON-A were used principally to infrastructure capital outlays. The outstanding balance as of June 30, 2011 approximates \$19.7 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% (3.73% at June 30, 2011). The proceeds of the SON-B were used principally for the construction of various capital facilities

and other capital assets. The outstanding balance as of June 30, 2011 approximates \$35.0 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 \$57.5 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 (0.45% at June 30, 2011). This loan agreement will be repaid from future grant awards received from the Community Development Block Grants (CDBG) program.

During September 2010, the Municipality entered into a line of credit agreement with GDB for \$25.4 million. The note was issued to finance the fourth payment of the early retirement termination benefit plan and other related debts up to the limit of the line of credit agreement. The borrowings mature on July 2015 and bears interest payable in annual installments at prime variable plus 1.50 percent (1.75% at June 30, 2011). The outstanding balance as of June 30, 2011 approximates \$25.4 million. This note will be repaid through sales tax revenues pledge and account for in the Municipality Redemption Fund.

The maturities of notes payable are as follows:

Year ending June 30,	Principal	Interest
2012	\$ 14,890,556	\$ 12,364,107
2013	15,811,355	12,616,970
2014	16,725,174	11,639,123
2015	33,467,993	9,836,231
2016	8,561,330	8,625,964
2017-2021	51,082,338	35,197,766
2022-2026	46,858,920	20,097,070
2027-2031	36,864,517	7,882,719
2032	4,594,019	283,056
Total	<u>\$ 228,856,202</u>	<u>\$ 118,543,006</u>

#### G. Compensated Absences

The government-wide statement of net assets includes approximately \$22.4 million, \$20.5 million and \$9.7 million of accrued vacation benefits, accrued sick leave benefits and payroll related benefits, respectively, representing the Municipality's commitment to fund such costs from future operations.

#### H. Pension-Related Debt

The amount reported as pension-related debt includes various obligations of the Municipality with the Employees Retirement System of the Government of Puerto Rico and Its Instrumentalities for the repayment of liabilities that resulted from the enactment of various special laws that, substance over form, converted the Municipality's actuarial accrued liability into a fixed contractual liability to the Cost-Sharing Multi-Employer Defined Benefit Pension Plan that the Municipality's employees participate and an early retirement plan as described in Notes 13 and 14, respectively.

On September 1, 2010, the Municipality entered into a payment plan of \$21.8 million with the Employees Retirement System of the Government of Puerto Rico and Its Instrumentalities for the repayment of a pension-related debt that resulted from the enactment of additional special laws during the years 2006 through 2010.

The new pension-related debt of \$21.8 million is payable with a first installment payment of \$2.5 million commencing on September 10, 2010 followed by fifty-nine monthly installments of \$327,349, including interests at an imputed rate of 5% per annum.

The pension-related debt has been reported in the accompanying government-wide statement of net assets since it is considered an accounting liability resulting from the conversion of an actuarial liability (off balance sheet obligation) into a liability that must be reported in the accompanying financial statements.

The maturities of the pension-related debt are as follows:

Year ending June 30,	Outstanding Amount
2012	\$ 25,632,748
2013	3,928,188
2014	3,928,188
2015	3,928,188
2016	654,677
Total	<u>\$ 38,071,989</u>

**I. Landfill Obligation**

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In December 2000, the Municipality's landfill facilities were closed. Based on current costs, the preliminary annual estimate of postclosure costs has been assessed to be approximately \$900,000 for a period of approximately 19 years. The balance of postclosure costs of \$17.1 million is reported in the statement of net assets. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations.

**J. Other Liabilities**

Other liabilities represent \$0.9 million in connection with a project to establish a land information management system and \$9.6 million in other miscellaneous liabilities.

**13. Pension Plans**

**A. Cost-Sharing Multi-Employer Defined Benefit Pension Plan**

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined benefit pension plan established by the Commonwealth and administered by the Retirement Systems Administration of the Commonwealth of Puerto Rico. Substantially all full-time employees of the Commonwealth and substantially all municipalities are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality

become plan members of ERS at the date of employment, while it is optional for officers appointed. ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

**Retirement Annuity**

ERS members are eligible for a retirement annuity upon reaching the following age:

Policemen and firemen:	Other employees:
50 with 25 years of credited service	55 with 25 years of credited service
58 with 10 years of credited service	58 with 10 years of credited service

ERS members are eligible for monthly benefit payments determined by the application of the stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a member is eligible, is limited to a minimum of \$300 per month and a maximum of 75 percent of the average compensation.

**Merit Annuity**

ERS members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65 percent and a maximum of 75 percent of the average compensation.

**Deferred Retirement Annuity**

A participating employee who ceases to be an employee of the Municipality after having accumulated a minimum of ten years of credited service qualifies for retirement benefits provided his/her contributions are left in ERS until reaching 58 years of age.

**Coordinated Plan**

On the coordinated plan, by the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- (a) \$165 per month, if retired with 55 years of age and 30 years of credited service.
- (b) \$110 per month, if retired with less than 55 years of age and 30 years of credited service.
- (c) All other between \$82 and \$100 per month.
- (d) Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

**Non-Coordinated Plan**

On the non-coordinated plan the participating employee does not have any change on the pension benefits upon receiving social security benefits.

**Reversionary Annuity**

An ERS member, upon retirement, could elect to receive a reduced retirement annuity giving one or more benefit payments to his/her dependents. The life annuity payments would start after the death of the retiree for an amount not less than \$240 per year or greater than the annuity payments being received by the retiree.

**Occupational Disability Annuity**

A participating employee, who as a direct result of the performance of his/her occupation is totally and permanently disabled is eligible for a disability annuity of 50 percent of the compensation received at the time of disability.

***Non-occupational Disability Annuity***

A participating employee, totally and permanently disabled for causes not related to his/her occupation and with no less than 10 years of credited service, is eligible for an annuity of 1.50 percent of the average compensation of the first 20 years of credited services, increased by 2 percent for every additional year of credited service in excess of 20 years.

***Death Benefits***

***Occupational:***

- (a) **Surviving spouse** – annuity equal to 50 percent of the participating employee's salary at the date of the death.
  
- (b) **Children** - \$10 per month for each child, minor or student, up to a maximum benefit per family of \$100.

***Non-occupational:***

**Beneficiary** – the contributions and interest accumulated as of the date of the death plus an amount equal to the annual compensation at the time of the death.

***Refunds***

A participating employee who ceases his/her employment with the Municipality without the right to a retirement annuity has the right to a refund of the contributions to ERS plus any interest earned thereon.

**B. Hybrid Defined Contribution Pension Plan**

On September 24, 1999, Public Act No. 305 was enacted to establish a defined contribution plan, known as System 2000, to cover employees joining ERS on or after January 1, 2000.

Employees that participated in the defined benefit plan as of December 31, 1999, had the opportunity to elect to either stay in the defined benefit plan or transfer to System 2000. Employees that joined the Municipality on or after January 1, 2000, were only allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan administered by the Retirement Systems Administration of the Commonwealth of Puerto Rico, also known as a cash balance plan. Under this new plan, there is a pool of plan assets, which is invested by the System, together with those of the cost-sharing multi-employer defined benefit plan. Neither the Commonwealth nor the Municipality guarantee benefits at retirement age. The annuity is based on a formula which assumes that each fiscal year the employee's contribution (with a minimum of 8.28 percent of the employee's salary up to a maximum of 10 percent) is invested as instructed by the employee in an account which either: (1) earns a fixed rate based on the two-year Constant Maturity Treasury Notes, (2) earns a rate equal to 75 percent of the return of the ERS' investment portfolio (net of management fees), or (3) earns a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability benefits are not granted under System 2000, rather are provided to those participants that voluntarily elect to participate in a private insurance long-term disability program. The employers' contributions (9.28 percent of the employee's salary) with respect to employees under System 2000 will continue and will be used to fund the cost-sharing multi-employer defined benefit plan.

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

**Funding Policies**

The authority under which obligations to contribute to ERS 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 Commonwealth of Puerto Rico.

The contribution requirement to ERS is established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	
Coordination plan:	5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent gross salary in excess of \$6,600.
Supplementation plan:	8.28 percent of gross salary. This is the only choice available to policemen, firemen and mayors

The contribution requirement to System 2000 is also established by law and is not actuarially determined. These contributions are as follows:

Municipality and other employers	9.28 percent of applicable payroll
Employees:	5.78 percent of gross salary up to \$6,600 per year, plus 8.28 percent of gross salary in excess of \$6,600.

During the fiscal years ended June 30, 2009, 2010 and 2011, the Municipality and the participating employees contributed at least 100 percent of the required contributions to ERS and System 2000. The combined actual contributions made by the Municipality and its participating employees to ERS and System 2000 amounted to \$13.8 million, \$14.3 million and \$13.8 million for the fiscal years ended June 30, 2011, 2010 and 2009 respectively.

Historically, the state government of the Commonwealth of Puerto Rico has reported ERS and System 2000 in its basic financial statements as pension trust funds. Accordingly, the Commonwealth is currently assuming any actuarial deficiency that may exist or arise related to the Municipality's participating employees because ERS does not allocate to the Municipality any actuarial deficiencies pertaining to participating municipal employees. The Municipality is only required by law to make statutory contributions at the rates detailed below.

**a) Annual Pension Cost**

The Municipality's recommended contribution, pension cost and decrease in net pension liability for the fiscal year ended June 30, 2011, are as follows:

	<b>Amount</b>
Annual required contribution and pension cost	\$ 11,886,789
Employer contributions made	<u>(13,809,016)</u>
Net change in net pension liability	(1,922,227)
Pension-related debt, beginning of year	<u>1,922,227</u>
Pension-related debt, end of year	<u>\$ -</u>

Readers can obtain information of the audited basic financial statements of ERS and System 2000 from the Retirement Systems Administration of the Commonwealth of Puerto Rico (the entity that administers ERS and System 2000) at PO Box 42003, Minillas Station, Santurce, Puerto Rico 00940-2003.

**14. 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:

<b>Year ending June 30,</b>	<b>Annual Pension Cost</b>	<b>Percentage Required Contribution</b>	<b>Actual Pension Contribution</b>	<b>Pension- Related Debt</b>
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	21,704,560	18.5%	-	21,704,560
	<u>\$ 117,908,562</u>	<u>100.0%</u>	<u>\$ 96,204,002</u>	<u>\$ 21,704,560</u>

The Municipality has made its required contribution to the Program for the year ended June 30, 2011.

15. **Fund Balance (Deficit) and Prior-Period Adjustments**

As of June 30 2011, fund balance (deficit) is comprised of the following:

<b>Fund balances (deficit):</b>	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>Nonspendable:</b>				
Inventories and other assets	\$ 15,618,837	\$ -	\$ 24,394	\$ 15,643,231
Loans receivable	-	-	10,886,938	10,886,938
<b>Restricted for:</b>				
General government	-	-	1,305,524	1,305,524
Public safety	3,297,457	-	464,861	3,762,318
Culture, recreation and education	-	-	20,371	20,371
Health and welfare	-	-	49,987	49,987
Urban development	-	-	3,012,261	3,012,261
Economic development	-	-	7,263,336	7,263,336
Debt service	-	38,273,407	-	38,273,407
Capital projects	-	-	6,498,784	6,498,784
<b>Committed:</b>				
General government	-	-	1,251	1,251
Public safety	163,890	-	2,422	166,312
Health and welfare	32,564	-	165,642	198,206
Capital projects	48,886	-	64,032,736	64,081,622
<b>Unassigned</b>	<b>(35,345,241)</b>	<b>-</b>	<b>(9,092,425)</b>	<b>(44,437,666)</b>
<b>Total fund balances (deficit)</b>	<b>\$ (16,183,607)</b>	<b>\$ 38,273,407</b>	<b>\$ 84,636,082</b>	<b>\$ 106,725,882</b>

Pursuant to the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), the Municipality undertook a comprehensive evaluation of its fund structure according to the modifications made by such pronouncement to the definitions of special revenue funds and the types of activities the Municipality may choose to report in those funds. As a result of such evaluation, on July 1, 2010 the Municipality recorded a prior-period adjustment to account for various funds previously recorded within the general fund that were reclassified as non-major special revenue funds. The restated beginning fund balances of the reclassified funds are composed of the following:

	<b>General Fund</b>	<b>Other Governmental Funds</b>
<b>Fund balances (deficit) at beginning of fiscal year, as previously reported</b>	<b>\$ (18,438,846)</b>	<b>\$ 93,132,676</b>
<b>Add/(deduct) :</b>		
GASB 54 fund reclassifications recorded as prior-period adjustments	1,593,643	(1,593,643)
Other miscellaneous adjustments	-	16,736
<b>Fund balances (deficit) at beginning of fiscal year, as restated</b>	<b>\$ (16,845,203)</b>	<b>\$ 91,555,769</b>

16. **Net Assets**

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

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
Capital assets, net of accumulated depreciation	\$ 654,605,376	\$ 54,616,345	\$ 709,221,721
Outstanding balance on capital related debt	(480,022,633)	(55,071,940)	(535,094,573)
Unexpended capital debt proceeds	98,999,940	-	98,999,940
Reclassification to unrestricted net assets	-	455,595	455,595
Total invested in capital assets, net of related debt	<u>\$ 273,582,683</u>	<u>\$ -</u>	<u>\$ 273,582,683</u>

17. **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.

18. **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, 2011, amounted to approximately \$7.1 million and \$1.9 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, 2011 of approximately \$70.0 million for the construction, improvements, or renovation of several capital facilities and the capital assets.

C. **Other commitments**

At June 30, 2011, the general fund had commitments of approximately \$19.7 million for executory purchases orders or contracts that will be honored during the subsequent year. In addition, the nonmajor health & human service funds and miscellaneous special revenue funds had a deficit of \$3.7 million and \$5.1 million, respectively which will be covered with future budgetary appropriations of the general fund, if necessary.

19. Contingencies

A. Losses

The Municipality is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations (including medical malpractice claims to the Municipality's Department of Health). Under Public Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Public Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgments.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$6.1 million at June 30, 2011, 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. Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significant, if any.

The changes in the reserve for claim and judgments for the last two fiscal years are as follows:

	2011	2010
Balance as of July 1	\$ 6,100,000	\$ 5,500,000
Add: Provision for claims and judgments	699,432	1,611,863
Less: Payments of claims and judgments	<u>(699,432)</u>	<u>(1,011,863)</u>
Balance as of June 30	<u>\$ 6,100,000</u>	<u>\$ 6,100,000</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, 2011, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors.

B. Gains

The Municipality is a plaintiff in a number of lawsuits arising principally from claims against the 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 and construction excise tax.

With respect to pending and threatened litigation, the Municipality has not reported any receivables at June 30, 2011, for anticipated favorable judgments of approximately \$60.0 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.

**20. Subsequent Events**

On December 12, 2011, the Municipality's Legislature approved the issuance of revenue anticipation notes amounting to \$57 million to cover the payment of various operating expenses charged to the general fund's budget for the fiscal year ending June 30, 2012. These notes are payable with financial resources arising from municipal license tax and sales taxes collections to be made during the fiscal year 2011-2012. The notes shall accrue interests at a rate per annum equal to 2.5 percentage points over the 90-day London Interbank-Offered Rate (LIBOR).

On February 21, 2012, the Municipality's Legislature approved the issuance of general obligation bonds amounting to \$25.7 million to cover the last installment of the Municipality's voluntary early retirement program in accordance to Municipal Resolution No. 41, Series 2006-2007 and other costs associated with certain special laws related to the retirement systems sponsored by the Municipality. These bonds are payable with financial resources arising from future property tax collections (the Additional Special Contribution) levied by law for these purposes. The bonds shall accrue interests at a rate per annum equal to 2.5 percentage points over the London Interbank-Offered Rate (LIBOR).

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## REQUIRED SUPPLEMENTARY INFORMATION



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MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note 1)	Final Budget - Positive (Negative)
<b>REVENUES:</b>				
Property taxes	\$ 154,202,807	\$ 154,157,738	\$ 161,024,007	\$ 6,866,269
Municipal license tax	152,500,000	152,500,000	153,974,460	1,474,460
Sales tax	51,000,000	51,000,000	48,713,261	(2,286,739)
Construction and other local taxes	22,949,000	22,949,000	21,985,853	(963,147)
Licenses and permits	578,000	578,000	2,044,147	1,466,147
Charges for services	61,772,265	61,772,265	57,218,872	(4,553,393)
Fines and forfeitures	5,200,000	5,200,000	6,901,109	1,701,109
Interest	6,500,000	6,500,000	1,867,437	(4,632,563)
Intergovernmental – local	34,463,863	34,463,863	41,209,528	6,745,665
Other	6,174,840	6,174,840	25,386,622	19,211,782
Total revenues	<u>495,340,775</u>	<u>495,295,706</u>	<u>520,325,296</u>	<u>25,029,590</u>
<b>EXPENDITURES:</b>				
Current:				
General government	124,370,975	122,466,353	144,523,971	(22,057,618)
Public safety	58,719,532	58,348,798	59,818,614	(1,469,816)
Public works	71,416,468	71,873,465	68,703,125	3,170,340
Culture and recreation	15,191,900	15,611,218	14,865,353	745,865
Health and welfare	204,462,200	204,847,120	201,675,783	3,171,337
Urban development	4,999,200	5,003,533	4,739,754	263,779
Economic development	8,987,200	10,091,290	10,066,475	24,815
Education	7,193,300	7,053,929	6,706,353	347,576
Total expenditures	<u>495,340,775</u>	<u>495,295,706</u>	<u>511,099,428</u>	<u>(15,803,722)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,225,868</u>	<u>\$ 9,225,868</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) *available for appropriation* from the budgetary comparison schedule				\$ 520,325,296
Differences - budget to USGAAP:				
The proceeds from the issuance of long-term debt are budgetary resources but are regarded as				
Other Financing Sources for financial reporting purposes				
				(25,386,622)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 494,938,674</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) *total charges to appropriations* from the budgetary comparison schedule				\$ 511,099,428
Differences - budget to USGAAP:				
Prior year encumbrances recorded as current year expenditures for USGAAP basis				
				19,692,347
Special general fund expenditure				
				8,564,272
Current year encumbrances recorded as expenditures for budgetary purposes				
				(19,692,347)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 519,663,700</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 disclosed in the notes of the financial statements as other significant commitments 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, 2011 representing the original budget. There was one supplemental appropriation for the year ended June 30, 2011.

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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 a 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 2008 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.

**2010 Bond Issue Funds** – These funds account for and report resources from 2010 bond issues committed to expenditures for the construction or acquisition of major capital facilities and other capital assets.

**2011 Bond Issue Funds** – These funds account for and report resources from 2011 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.

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
As of June 30, 2011

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds	Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash in commercial banks	\$ 33,438,872	\$ 10,503,045	\$ 43,941,917
Cash with fiscal agent	1,709,000	88,496,895	90,205,895
Accounts receivable:			
Intergovernmental	20,754,179	-	20,754,179
Other	649,683	151	649,834
Loans receivable, net	10,886,938	-	10,886,938
Due from other funds	-	791,778	791,778
Inventories	24,394	-	24,394
Real estate held for sale	175,201	-	175,201
Restricted cash in commercial banks	2,496,757	18,600	2,515,357
Total assets	<u>\$ 70,135,024</u>	<u>\$ 99,810,469</u>	<u>\$ 169,945,493</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 8,247,818	\$ 15,231,595	\$ 23,479,413
Intergovernmental payables	533,220	96,395	629,615
Due to other funds	41,646,731	14,684,567	56,331,298
Deferred revenues	5,118,730	-	5,118,730
Total liabilities	<u>55,546,499</u>	<u>30,012,557</u>	<u>85,559,056</u>
Fund balances:			
Nonspendable	10,911,332	-	10,911,332
Restricted	12,116,340	6,498,784	18,615,124
Committed	169,315	63,977,941	64,147,256
Unassigned	(8,608,462)	(678,813)	(9,287,275)
Total fund balances	<u>14,588,525</u>	<u>69,797,912</u>	<u>84,386,437</u>
Total liabilities and fund balances	<u>\$ 70,135,024</u>	<u>\$ 99,810,469</u>	<u>\$ 169,945,493</u>

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
As of June 30, 2011

	Department of Justice Funds	Department of Labor Funds	Health & Human Service Funds	Housing & Urban Development Funds	Independent Capital Fund	Miscellaneous Special Revenue Funds	Comunidad del Retiro	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>								
Cash in commercial banks	\$ 132,451	\$ 3,075,750	\$ 3,507,206	\$ 10,672,954	\$ 10,156,442	\$ 5,882,020	\$ 12,049	\$ 33,438,872
Cash with fiscal agent	-	-	-	-	-	1,709,000	-	1,709,000
Accounts receivable:								
Intergovernmental	372,420	2,519,496	9,478,910	5,381,647	-	3,001,706	-	20,754,179
Other	3,700	6,116	123,945	276,058	127,741	24,821	87,302	649,683
Loans receivable, net	-	-	-	-	10,886,938	-	-	10,886,938
Due from other funds	-	-	-	-	-	-	-	-
Inventories	-	-	24,394	-	-	-	-	24,394
Real estate held for sale	-	-	-	-	175,201	-	-	175,201
Restricted cash in commercial banks	-	-	-	-	-	-	2,496,757	2,496,757
Total assets	<u>\$ 508,571</u>	<u>\$ 5,601,362</u>	<u>\$13,134,455</u>	<u>\$ 16,330,659</u>	<u>\$ 21,346,322</u>	<u>\$ 10,617,547</u>	<u>\$ 2,596,108</u>	<u>\$ 70,135,024</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>								
Liabilities:								
Accounts payable and accrued liabilities	\$ 167,700	\$ 969,595	\$ 2,718,913	\$ 1,323,423	\$ 54,489	\$ 2,560,924	\$ 452,774	\$ 8,247,818
Intergovernmental payables	-	65,855	336,175	72,528	-	58,662	-	533,220
Due to other funds	91,403	4,563,757	12,779,064	12,924,108	27,641	11,260,758	-	41,646,731
Matured bonds and interest payable	-	-	-	-	-	-	-	-
Deferred revenues	249,468	2,155	994,321	2,027,649	-	1,843,084	2,053	5,118,730
Total liabilities	<u>508,571</u>	<u>5,601,362</u>	<u>16,828,473</u>	<u>16,347,708</u>	<u>82,130</u>	<u>15,723,428</u>	<u>454,827</u>	<u>55,546,499</u>
Fund balances (deficit):								
Nonspendable	-	-	24,394	-	10,886,938	-	-	10,911,332
Restricted	-	-	-	-	7,263,328	2,711,731	2,141,281	12,116,340
Committed	-	-	-	-	-	169,315	-	169,315
Unassigned	-	-	(3,718,412)	(17,049)	3,113,926	(7,986,927)	-	(8,608,462)
Total fund balances (deficit)	<u>-</u>	<u>-</u>	<u>(3,694,018)</u>	<u>(17,049)</u>	<u>21,264,192</u>	<u>(5,105,881)</u>	<u>2,141,281</u>	<u>14,588,525</u>
Total liabilities fund balances (deficit)	<u>\$ 508,571</u>	<u>\$ 5,601,362</u>	<u>\$13,134,455</u>	<u>\$ 16,330,659</u>	<u>\$ 21,346,322</u>	<u>\$ 10,617,547</u>	<u>\$ 2,596,108</u>	<u>\$ 70,135,024</u>

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECT FUNDS  
As of June 30, 2011

	Joint Resolution Funds	Citizen Participation Funds	Various Bond Issue Funds	2009 Bond Issue Funds	2010 Bond Issue Funds	2011 Bond Issue Funds	Loan Guarantee Fund	Total Nonmajor Capital Project Funds
<b>ASSETS</b>								
Cash in commercial banks	\$ 8,581,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,921,548	\$ 10,503,045
Cash with fiscal agent	-	-	37,009,734	6,895,316	19,815,096	24,776,749	-	88,496,895
Accounts receivable:								
Intergovernmental	-	-	-	-	-	-	-	-
Other	-	-	151	-	-	-	-	151
Loans receivable, net	-	-	-	-	-	-	-	-
Due from other funds	-	502,412	-	-	-	-	289,366	791,778
Inventories	-	-	-	-	-	-	-	-
Real estate held for sale	-	-	-	-	-	-	-	-
Restricted cash in commercial banks	18,600	-	-	-	-	-	-	18,600
Total assets	<u>\$ 8,600,097</u>	<u>\$ 502,412</u>	<u>\$ 37,009,885</u>	<u>\$ 6,895,316</u>	<u>\$ 19,815,096</u>	<u>\$ 24,776,749</u>	<u>\$ 2,210,914</u>	<u>\$ 99,810,469</u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>								
Liabilities:								
Accounts payable and accrued liabilities	\$ 117,959	\$ 753,144	\$ 13,191,529	\$ 319,200	\$ 210,556	\$ (36,829)	\$ 676,036	\$ 15,231,595
Intergovernmental payables	-	-	96,395	-	-	-	-	96,395
Due to other funds	1,983,354	-	3,889,025	7,004,197	1,357,819	450,372	-	14,684,567
Deferred revenues	-	-	-	-	-	-	-	-
Total liabilities	<u>2,101,313</u>	<u>753,144</u>	<u>17,176,949</u>	<u>7,323,397</u>	<u>1,568,175</u>	<u>413,543</u>	<u>676,036</u>	<u>30,012,557</u>
Fund balances (deficit):								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	6,498,784	-	-	-	-	-	-	6,498,784
Committed	-	-	19,832,936	-	18,246,921	24,363,206	1,534,878	63,977,941
Unassigned	-	(250,732)	-	(428,081)	-	-	-	(678,813)
Total fund balances (deficit)	<u>6,498,784</u>	<u>(250,732)</u>	<u>19,832,936</u>	<u>(428,081)</u>	<u>18,246,921</u>	<u>24,363,206</u>	<u>1,534,878</u>	<u>69,797,912</u>
Total liabilities fund balances (deficit)	<u>\$ 8,600,097</u>	<u>\$ 502,412</u>	<u>\$ 37,009,885</u>	<u>\$ 6,895,316</u>	<u>\$ 19,815,096</u>	<u>\$ 24,776,749</u>	<u>\$ 2,210,914</u>	<u>\$ 99,810,469</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, 2011

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
<b>REVENUES</b>			
Charges for Services	\$ 2,135,798	\$ -	\$ 2,135,798
Interest	664,892	-	664,892
Intergovernmental			
Federal	142,588,992	-	142,588,992
Local	1,898	226,711	228,609
Other	3,404,137	62,704	3,466,841
Total revenues	<u>148,795,717</u>	<u>289,415</u>	<u>149,085,132</u>
<b>EXPENDITURES</b>			
Current			
General Government	13,046,766	88,251	13,135,017
Public Safety	1,362,658	-	1,362,658
Public works	1,107,366	163,002	1,270,368
Culture and recreation	943,956	266,234	1,210,190
Health and welfare	53,692,048	387,511	54,079,559
Urban development	47,111,979	1,116	47,113,095
Economic development	10,399,742	463,773	10,863,515
Education	8,413,936	483,932	8,897,868
Capital outlays	8,303,142	29,985,277	38,288,419
Debt Service			
Principal	3,670,736	-	3,670,736
Interest	3,101,099	-	3,101,099
Total expenditures	<u>151,153,428</u>	<u>31,839,096</u>	<u>182,992,524</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,357,711)</u>	<u>(31,549,681)</u>	<u>(33,907,392)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from bonds issued	-	26,738,060	26,738,060
Total other financing sources (uses)	<u>-</u>	<u>26,738,060</u>	<u>26,738,060</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(2,357,711)</u>	<u>(4,811,621)</u>	<u>(7,169,332)</u>
<b>FUND BALANCES, BEGINNING OF YEAR, AS RESTATED</b>	<u>16,946,236</u>	<u>74,609,533</u>	<u>91,555,769</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 14,588,525</u>	<u>\$ 69,797,912</u>	<u>\$ 84,386,437</u>

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES (DEFICIT) -  
NONMAJOR SPECIAL REVENUES FUNDS  
For the Fiscal Year Ended June 30, 2011

	Department of Justice Funds	Department of Labor Funds	Health & Human Service Funds	Housing & Urban Development Funds	Independent Capital Fund	Miscellaneous Special Revenue Funds	Comunidad del Retiro	Total Nonmajor Special Revenue Funds
<b>REVENUES</b>								
Charges for Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,135,798	\$ 2,135,798
Interest	12	-	-	239	664,641	-	-	664,892
Intergovernmental								
Federal	885,244	9,218,439	53,646,527	57,408,372	-	21,430,410	-	142,588,992
Local	-	-	-	-	1,898	-	-	1,898
Other	11	-	-	851,367	875,000	1,677,759	-	3,404,137
Total revenues	<u>885,267</u>	<u>9,218,439</u>	<u>53,646,527</u>	<u>58,259,978</u>	<u>1,541,539</u>	<u>23,108,169</u>	<u>2,135,798</u>	<u>148,795,717</u>
<b>EXPENDITURES</b>								
Current								
General Government	83,637	18,721	9,654,043	757,707	-	2,532,658	-	13,046,766
Public Safety	170,613	467,588	-	236,078	-	488,379	-	1,362,658
Public works	-	-	-	-	-	1,107,366	-	1,107,366
Culture and recreation	-	-	-	928,677	-	15,279	-	943,956
Health and welfare	152,310	-	46,753,246	2,713,197	-	4,073,295	-	53,692,048
Urban development	-	-	-	45,259,202	-	29,737	1,823,040	47,111,979
Economic development	-	8,731,805	-	1,011,152	314,750	342,035	-	10,399,742
Education	-	-	75,516	-	-	8,338,420	-	8,413,936
Capital outlays	478,707	325	857,740	1,277,249	-	5,647,148	41,973	8,303,142
Debt Service								
Principal	-	-	-	3,330,000	-	-	340,736	3,670,736
Interest	-	-	-	2,763,765	-	-	337,334	3,101,099
Total expenditures	<u>885,267</u>	<u>9,218,439</u>	<u>57,340,545</u>	<u>58,277,027</u>	<u>314,750</u>	<u>22,574,317</u>	<u>2,543,083</u>	<u>151,153,428</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>(3,694,018)</u>	<u>(17,049)</u>	<u>1,226,789</u>	<u>533,852</u>	<u>(407,285)</u>	<u>(2,357,711)</u>
<b>OTHER FINANCING SOURCES (USES):</b>								
Proceeds from bonds issued	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES (DEFICIT)</b>	<u>-</u>	<u>-</u>	<u>(3,694,018)</u>	<u>(17,049)</u>	<u>1,226,789</u>	<u>533,852</u>	<u>(407,285)</u>	<u>(2,357,711)</u>
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR, AS RESTATED</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,037,403</u>	<u>(5,639,733)</u>	<u>2,548,566</u>	<u>16,946,236</u>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,694,018)</u>	<u>\$ (17,049)</u>	<u>\$ 21,264,192</u>	<u>\$ (5,105,881)</u>	<u>\$ 2,141,281</u>	<u>\$ 14,588,525</u>

MUNICIPALITY OF SAN JUAN,  
CAPITAL CITY OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES (DEFICIT) -  
NONMAJOR CAPITAL PROJECT FUNDS  
For the Fiscal Year Ended June 30, 2011

	Joint Resolution Fund	Citizen Participation Fund	Various Bond Issue Funds	2009 Bond Issue Funds	2010 Bond Issue Funds	2011 Bond Issue Funds	Loan Guarantee Fund	Total Nonmajor Capital Project Funds
<b>REVENUES</b>								
Charges for Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-	-	-	-
Intergovernmental								
Federal	-	-	-	-	-	-	-	-
Local	226,711	-	-	-	-	-	-	226,711
Other	-	-	62,704	-	-	-	-	62,704
Total revenues	<u>226,711</u>	<u>-</u>	<u>62,704</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>289,415</u>
<b>EXPENDITURES</b>								
Current								
General Government	-	-	-	-	-	88,251	-	88,251
Public Safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	163,002	-	-	163,002
Culture and recreation	41,878	-	29,984	8,575	-	185,797	-	266,234
Health and welfare	10,720	-	-	282,919	93,872	-	-	387,511
Urban development	-	-	-	1,116	-	-	-	1,116
Economic development	-	-	372,171	22,221	27,200	42,181	-	463,773
Education	-	-	150,464	333,468	-	-	-	483,932
Capital outlays	2,357,982	96,959	6,259,510	7,291,484	11,119,958	2,058,625	800,759	29,985,277
Debt Service								
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Total expenditures	<u>2,410,580</u>	<u>96,959</u>	<u>6,812,129</u>	<u>7,939,783</u>	<u>11,404,032</u>	<u>2,374,854</u>	<u>800,759</u>	<u>31,839,096</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,183,869)</u>	<u>(96,959)</u>	<u>(6,749,425)</u>	<u>(7,939,783)</u>	<u>(11,404,032)</u>	<u>(2,374,854)</u>	<u>(800,759)</u>	<u>(31,549,681)</u>
<b>OTHER FINANCING SOURCES (USES):</b>								
Proceeds from bonds issued	-	-	-	-	-	26,738,060	-	26,738,060
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,738,060</u>	<u>-</u>	<u>26,738,060</u>
<b>NET CHANGE IN FUND BALANCES (DEFICIT)</b>	<u>(2,183,869)</u>	<u>(96,959)</u>	<u>(6,749,425)</u>	<u>(7,939,783)</u>	<u>(11,404,032)</u>	<u>24,363,206</u>	<u>(800,759)</u>	<u>(4,811,621)</u>
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	<u>8,682,653</u>	<u>(153,773)</u>	<u>26,582,361</u>	<u>7,511,702</u>	<u>29,650,953</u>	<u>-</u>	<u>2,335,637</u>	<u>74,609,533</u>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<u>\$ 6,498,784</u>	<u>\$ (250,732)</u>	<u>\$ 19,832,936</u>	<u>\$ (428,081)</u>	<u>\$ 18,246,921</u>	<u>\$ 24,363,206</u>	<u>\$ 1,534,878</u>	<u>\$ 69,797,912</u>

**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***

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**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, the business-type 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, 2011, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 9, 2012. 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies items 11-01 to 11-06.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of San Juan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported on under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 11-07 to 11-08.

We noted certain other matters that we reported to management of the Municipality in a separate letter dated March 9, 2012.

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 to be used by anyone other than these specified parties.

March 9, 2012

*Aguiño, Le bordona, Afaror Co. SdP*

Stamp number 2635066  
has been affixed to the  
original report

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

**PART III**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Municipality of San Juan's, Capital of Puerto Rico (the "Municipality") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that could have direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2011. 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 Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

In our opinion the Municipality of San Juan complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-07 and 11-08.

## Internal Control over Compliance

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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 11-07 and 11-08. A *significant deficiency in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 the responses.

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 27, 2012

*Aguino, De Cordova, Alfonso & Co. LLP*

Stamp number 2635067  
has been affixed to the  
original report

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

**PART IV**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011  
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.
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 that could have a direct and material effect on major federal award programs were identified.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Municipality's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Section 8 Housing Choice Vouchers	14.871
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249
Housing Opportunities for Persons with AIDS	14.241
HOME Investment Partnership Program	14.239
Community Development Block Grants/Entitlement	14.218
Community Development Block Grants ARRA	14.253
HIV Emergency Relief Project Grants	93.914
Minority AIDS Initiative	93.914
Workforce Investment Act ("WIA")	17.258, 17.259, 17.260
Workforce Investment Act ("WIA") ARRA	17.258, 17.259, 17.260
Head Start	93.600
Head Start ARRA	93.708
Early Head Start Expansion ARRA	93.709
Community Service Block Grants	93.569
Community Service Block Grant ARRA	93.710
Federal Transit - Capital Investment Grants	20.500
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507

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, 2011**

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<b>Reference Number</b>	<b>Findings</b>	<b>Questioned Costs for the Year Ended June 30, 2011</b>
<b>Accounting and Finance Department</b>		
11-01	Deficit in the Municipality's general fund at June 30, 2011.	\$ -
11-02	The accounting records are not maintained up to date.	
11-03	The Municipality is not canceling outstanding checks, which have been outstanding for a period of six months.	
11-04	Internal control over property management need to be strengthened.	
11-05	The Municipality has deficiencies in the execution of property management procedures.	
<b>Human Resources Department</b>		
11-06	The Municipality does not have an effective system to ensure the completeness and accuracy of the employee files.	
<b>Workforce Investment Act/Workforce Investment Act - ARRA</b>		
11-07	Financial report does not reconcile with Oracle	
<b>Federal Transit Administration Cluster</b>		
11-08	Federal Financial Report has not been submitted	-
		\$ -

**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**

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**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 FISCAL YEAR ENDED JUNE 30, 2011

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**Finding Number 11-01**

Department

Accounting and Finance

Category

Internal Control

Condition

The Municipality closed its fiscal year ended June 30, 2011 with a fund balance deficiency in the general fund of approximately \$16.8 million. In 2011, the Municipality reduced the deficit by \$662,000 and established a long-term financial plan to amortize the deficit in a period no longer than 40 years.

Criteria

In accordance with the "Reglamento para la Administración de Municipios" Chapter IV, Section 19, the Finance Director has the responsibility of overseeing financial operations to prevent deficits in any municipal fund.

Effect

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 FISCAL YEAR ENDED JUNE 30, 2011

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**Finding Number 11-02**

Department

Accounting and Finance

Category

Internal Control

Condition

During the audit process, we noted that the accounting records were not maintained on a timely basis; for example the subsidiary reconciliations of accounts receivable, payable and payroll analysis were not prepared on a monthly basis.

Criteria

According to OMB Circular A-110, Subpart C, Section 21-Standards for Financial Management System, recipients financial management systems shall provide for: (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements; (2) records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, available balances, assets, outlays, income and interest.

Effect

Managerial decisions may be executed using unreliable assumptions on financial information.

Cause

This is caused by the lack of adequate procedures and infrastructure, including professionals with the adequate authority and responsibility for the supervision and analysis of the general accounting and records.

Recommendation

Management should maintain the accounting records up-dated and perform comparing, reviewing and monitoring procedures in order to have reliable financial information that can be used in the managerial decision process. Also, an adequate identification and proper adjustment of reconciling items during the accounts receivable and payable analysis is necessary to maintain and disclose accurate and current financial information.

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 FISCAL YEAR ENDED JUNE 30, 2011**

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**Finding Number 11-03**

Department

Accounting and Finance

Category

Internal Control

Condition

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

Criteria

Chapter IV, Section 13, of the "Reglamento para la Administración de Municipios" establishes that checks outstanding for more than one year should be canceled. The Municipality's policy for canceling checks has an expiration period of six months.

Effect

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 inadequate 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 FISCAL YEAR ENDED JUNE 30, 2011

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**Finding Number 11-04**

Department

Property Management

Category

Internal Control

Condition

The Municipality has not performed a physical inventory of equipment and vehicles. According to the existing records, the cost of the equipment and vehicles owned by the Municipality is approximately \$84.6 millions as of June 30, 2011. In addition, property records are not segregated by fund.

Criteria

Article 8.010 (c) of the Municipalities' Act 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 23 of the "Reglamento para la Administración de Municipios" 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 of property because there are no internal 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 that departments perform property inventories to ensure the proper accountability of assets.

**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 FISCAL YEAR ENDED JUNE 30, 2011**

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Recommendation

A physical inventory of equipment and vehicles owned by the Municipality should be performed as soon as possible for all departments and all differences should be investigated, reconciled and adjusted on the property and equipment subsidiary ledgers. In connection with this inventory, tags should be placed on each asset with numbers that are recorded detail property records. This will help improve the tracking of assets for disposal and impairment purposes. 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.

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 FISCAL YEAR ENDED JUNE 30, 2011

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**Finding Number 11-05**

Department

Property Management

Category

Internal Control

Condition

The Municipality has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we noted that the Municipality's equipment acquired during the year is not properly and timely labeled and identified.

Criteria

Chapter VII, Section 14 of the "Reglamento para la Administración de Municipios" establishes that the Municipality will assign a unit number for all municipal property acquired and owned by the Municipality. Before any payment made for property acquired by purchase, the Property Manager shall assign the number of unit of the property in the respective purchasing document.

Chapter VII, Section 15 of the "Reglamento para la Administración de Municipios" also establishes that the Property Manager shall have full control of property records of the Municipality and responds to the Finance Director. Also, after the unit number is assigned the Property Manager shall prepare a record of the property which must contain the following information: unit number, name, description of the property, cost or estimated value at the date of the acquisition, name and address of the supplier, brand name, serial number and location of the property.

Effects

There is a significant risk of unauthorized appropriation, use or disposition of equipment due to the lack of internal controls and adequate property and equipment records to ensure accountability of assets by department/division.

Cause

The Municipality does not maintain accurate records for acquisitions, transfers, returns and disposal of the assets acquired.

Recommendation

The Municipality's management should ensure that proper procedures are in place to ensure that property purchased is properly and timely identified and conduct periodic inventories and follow up any inventory discrepancies. In addition, the Municipality's management should review all disposals of property to ensure appropriate valuation.

**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 FISCAL YEAR ENDED JUNE 30, 2011

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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 FISCAL YEAR ENDED JUNE 30, 2011**

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**Finding Number 11-06**

Department

Human Resources Department

Category

Internal Control

Condition

Randomly we selected two pay periods in 2011. A sample of 125 employees was selected to vouch employees' payment to ascertain accuracy of the payment amount and process. Of 125 employee files tested for 7 files (6%) we were not supported by complete time and attendance records.

Criteria

The payroll charge has to be supported by documentation prescribed in OMB Circular A-87, attachment B, Paragraph 11.h for state and local governments and Indian tribal governments. The payroll charge has to be supported by personnel activities as time and attendance records and salary distribution reports.

Effects

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

Cause

The above situation was due to a restructuring process established by the Human Resources Department and procedures are not fully implemented.

Recommendation

The Human Resources and Labor Relations Department should maintain audit trail sufficient to support that employee payroll payment has been properly completed.

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**

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**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 FISCAL YEAR ENDED JUNE 30, 2011

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**Finding Number 11-07**

Federal program

Workforce Investment Act (WIA) - CFDA # 17.258, # 17.259, # 17.260  
Workforce Investment Act (WIA) - ARRA - 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.

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 represented by 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 FISCAL YEAR ENDED JUNE 30, 2011

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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**

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 FISCAL YEAR ENDED JUNE 30, 2011

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**Finding Number 11-08**

Federal program

Federal Transit – Capital Investment Grants – CFDA #20.500  
Federal Transit – Formula Grants (Urbanized Area Formula Program – CFDA #20.507

Category

Compliance

Compliance requirements

Financial reporting

Condition

The Municipality could not provide the Federal Financial Report submitted for the periods of October 1, 2010 to December 31, 2010 for project PR-90-X150-00 and period of October 1, 2010 to December 31, 2010 for project PR-90-X-252-00.

Criteria

Federal regulations require each recipient which directly receives financial assistance to submit form SF-425. It shall be submitted on a quarterly basis.

Effects

Failure to submit an FFR (Federal Financial Report) may delay receiving grant funds and may result in a determination of lack of capacity for future funding.

Cause

These reports are not properly filed in the Municipality.

Questioned Costs

None.

Recommendation

The Federal Financial Report must be prepared and filed as required by the Federal Transit Administration (FTA). Client should maintain a hard copy or an electronic copy submitted.

Views of Responsible Officials

Management agrees.

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

**PART VII**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**MUNICIPALITY OF SAN JUAN**  
**CAPITAL CITY OF PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>	<b>Pass-through Number</b>	<b>Expenditures 2011</b>
<b><u>Department of Housing and Urban Development (HUD)</u></b>			
Section 8 Housing Choice Vouchers	14.871		\$ 22,211,177
<b>CDBG Cluster</b>			
Community Development Block Grants/Entitlement Grants	14.218		10,663,942
Community Development Block Grant ARRA Entitlement Grant (Recovery Funded Grant)	14.253	ARRA	<u>1,133,975</u>
			11,797,917
HOME Investment Partnership Programs	14.239		5,954,621
<b>HOPWA Cluster</b>			
Housing Opportunities for Persons with AIDS	14.241		5,474,330
<b>Pass-through from Commonwealth of Puerto Rico/Department of Health</b>			
HOPWA - Project Sponsor	14.241	*	<u>2,523,335</u>
			7,997,665
<b>Section 8 Moderate Rehabilitation Cluster</b>			
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249		788,965
Lower Income Housing Assistant Program-Section 8 Moderate Rehabilitation	14.856		<u>3,371,977</u>
			4,160,942
Emergency Shelter Grants Program	14.231		475,343
Supportive Housing Program	14.235		1,235,804
Community Development Block Grants/Section 108 Loan Guarantees	14.248		800,759
Shelter Plus Care	14.238		509,452
Homeless Prevention and Rapid Re-Housing Program	14.257	ARRA	2,908,946
<b>Pass-through from Commonwealth of Puerto Rico/OCAM</b>			
ARRA - Neighborhood Stabilization Program (NSP)	14.256	*	<u>1,025,340</u>
			59,077,966
<b><u>Department of Health and Human Services (HHS)</u></b>			
<b>Head Start Cluster</b>			
Head Start	93.600		29,489,915
Head Start - ARRA	93.708	ARRA	1,018,327
Early Head Start Expansion - ARRA	93.709	ARRA	<u>3,965,014</u>
			34,473,256

See notes to the Schedule of Expenditures of Federal Awards.

**MUNICIPALITY OF SAN JUAN**  
**CAPITAL CITY OF PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>CFDA Number</b>		<b>Pass-through Number</b>	<b>Expenditures 2011</b>
<b><u>Department of Health and Human Services (HHS) - continued</u></b>				
HIV Emergency Relief Project Grants	93.914			11,095,480
Consolidated Health Centers	93.224			481,276
ARRA-Grants to Health Centers Program	93.703	ARRA		31,441
Cancer Control	93.399			409,913
ARRA Scholarship Disadvantaged Students	93.407	ARRA		29,679
Scholarship for Health Professions Students	93.925			45,837
Special Projects of National Significance	93.928			62,330
<b>Pass-through from Commonwealth of Puerto Rico Families and Child Administration-</b>				
<b>CSBG Cluster</b>				
Community Service Block Grant	93.569		*	4,208,049
Community Service Block Grant - ARRA	93.710	ARRA	*	5,683,887
				<u>9,891,936</u>
<b>Pass-through from Commonwealth of Puerto Rico Governor's Office-</b>				
Special Program for the Aging-Title III, Part C- Nutrition Services	93.045		*	1,151,252
<b>Pass-through from Commonwealth of Puerto Rico-WESTAT-</b>				
National Institute - WESTAT	93.990		*	581,616
<b>Pass-through from Commonwealth of Puerto Rico Department of Education-</b>				
Risk Reduction	93.941		*	178,868
Childhood Immunization Grants	93.268		*	51,837
<b>Pass-through from Harvard College</b>				
ARRA NICHD-Pediatric-HIV-AIDS	93.701	ARRA	*	7,075
				<u>58,491,796</u>
<b><u>Department of Labor (DOL)</u></b>				
<b>Pass-through from Commonwealth of Puerto Rico Right to Employment Administration-</b>				
<b>WIA Cluster</b>				
Workforce Investment Act (WIA) - Adult Program	17.258		*	3,041,964
Workforce Investment Act (WIA) - Youth Activities	17.259		*	2,386,456
Workforce Investment Act (WIA) - Dislocated Workers	17.260		*	1,655,997
Workforce Investment Act (WIA) - Adult Program ARRA	17.258	ARRA	*	568,379
Workforce Investment Act (WIA) - Youth Activities ARRA	17.259	ARRA	*	1,142,644
Workforce Investment Act (WIA) - Dislocated Workers ARRA	17.260	ARRA	*	422,999
				<u>9,218,439</u>

See notes to the Schedule of Expenditures of Federal Awards.

**MUNICIPALITY OF SAN JUAN**  
**CAPITAL CITY OF PUERTO RICO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass- through Number	Expenditures 2011
<b><u>Department of Justice (DOJ)</u></b>			
Drug Free Communities Support Programs Grants	16.729		960,917
Community Prosecution Project Safe Neighborhoods	16.609		88,774
U.S. Marshall Services- PR Fugitive Task Force	16.000		13,020
<b>Pass-through from Commonwealth of Puerto Rico Department of Justice:</b>			
Edward Byrne Justice Assistance Grant	16.738	*	87,865
Crime Victim Assistant	16.575	*	58,953
ARRA Edward Byrne Memorial Justice Assistance Grant	16.803	ARRA *	93,357
Subtotal			1,302,886
<b><u>Department of Education (ED)</u></b>			
Federal Pell Grant Program (PELL)	84.063		7,417,435
Supplementary Educational Opportunity Grants	84.007		45,389
Federal Work-Study Program (FWS)	84.033		60,499
			7,523,323
TRIO Student Support Services	84.042		294,865
Academic Competitiveness Grant	84.375		27,557
National Science and Mathematics Access to Retain Talent Grant (SMART)	84.376		64,000
Subtotal			7,909,745
<b><u>Department of Agriculture (USDA)</u></b>			
<b>Pass-through from Commonwealth of Puerto Rico Department of Education-</b>			
Child and Adult Care Food Program (CACFP)	10.558	*	2,368,550
National School Lunch Program	10.555	*	177,669
Subtotal			2,546,219
<b><u>Corporation for National and Community Service</u></b>			
<b>Pass-through from Commonwealth of Puerto Rico Department of Health:</b>			
Foster Grandparent Program	94.011		395,019
Retired and Senior Volunteer Program	94.002		82,198
			477,217

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 FISCAL YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass- through Number	Expenditures 2011
<b><u>Department of Homeland Security</u></b>			
Urban Area Security Initiative	97.067		48,640
<b><u>Department of Transportation</u></b>			
Federal Transit Capital Investment Grant	20.500		1,014,176
Federal Transit Formula Grant	20.507		<u>4,767,972</u>
			5,782,148
<b>Pass-through from Commonwealth of Puerto Rico/Traffic Safety Commission:</b>			
Drugs, Tobacco & Firearms	20.601	*	<u>86,185</u>
			5,868,333
<b>Department of Energy</b>			
<b>Pass-through from Commonwealth of Puerto Rico Governor's Office</b>			
ARRA Energy Efficiency and Conservation Block Grant	81.128	ARRA *	<u>1,109,325</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 146,050,566</u></b>

\* Pass-through number is not available

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 FISCAL YEAR ENDED JUNE 30, 2011

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1. **Basis of Accounting**—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		\$ 146,050,566
Comunidad del Retiro		2,543,083
Nonfederal programs included in the special revenue funds		<u>3,360,358</u>
Total special revenue funds		151,954,007
Capital projects funds	\$ 31,589,451	
Less: Loan guarantee fund	<u>(800,579)</u>	<u>30,788,872</u>
Other governmental funds columns in the governmental fund financial statements		<u>\$ 182,742,879</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*.

4. **Clusters** - The Schedule of Federal Assistance identified some programs as clusters. A cluster of programs means federal programs with different CFDA numbers that are closely related programs that share common requirements.

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

**PART VIII**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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**MUNICIPALITY OF SAN JUAN**



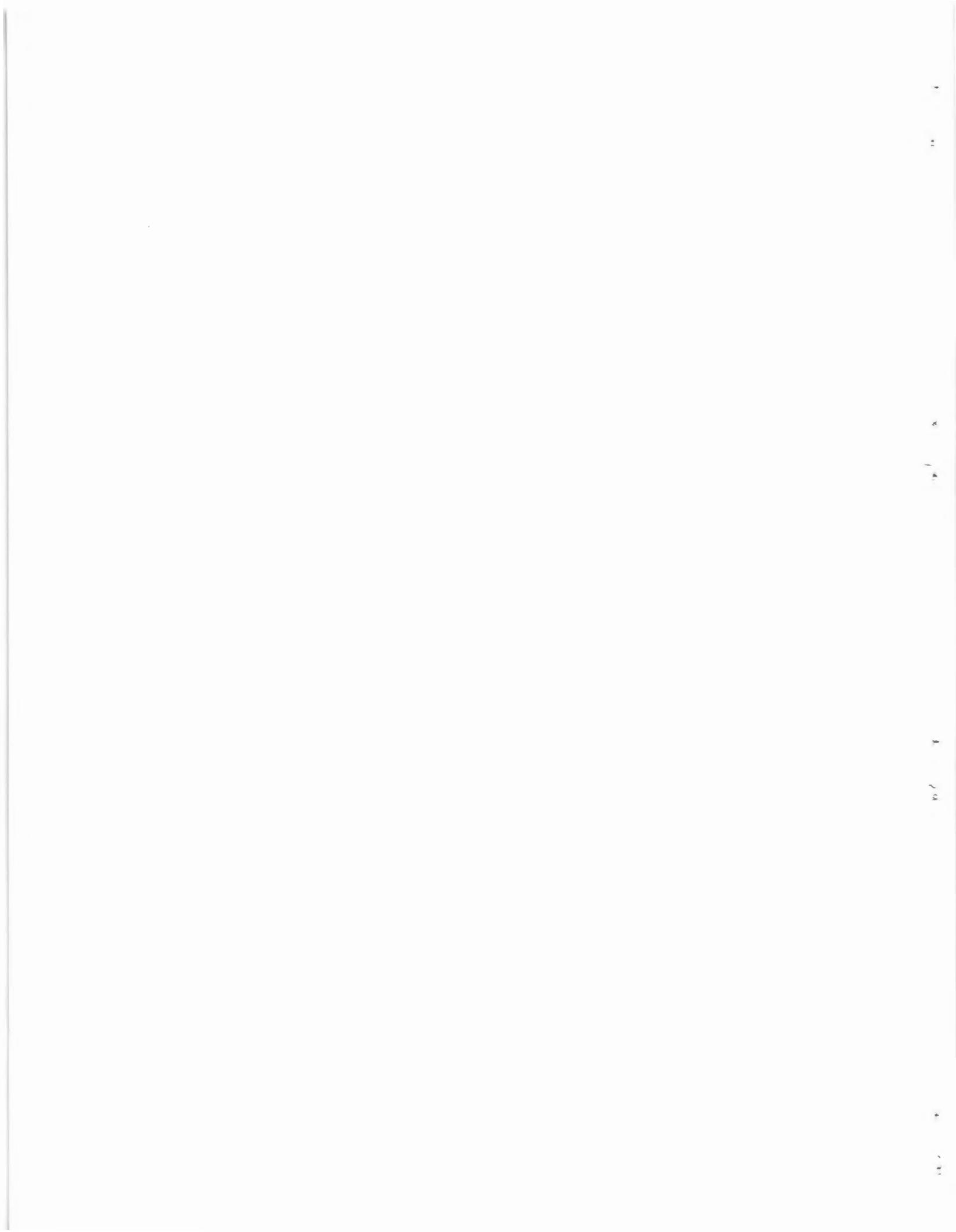
*Status of Prior Year 2009-2010  
Single Audit Requirements  
as of June 30, 2011*



MUNICIPALITY OF SAN JUAN, PUERTO RICO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2011

Reference Number	Finding Description	Questioned Costs	Status
<b>Accounting and Finance Department</b>			
10-01	Deficit in the Municipality's general fund at June 30, 2010	\$ -	Situation still prevails. Refer to Finding 11-01 and related Corrective Action Plan.
10-02	The accounting records are not maintained up to date.	-	Situation still prevails. Refer to Finding 11-02 and related Corrective Action Plan.
10-03	The Municipality is not canceling checks which have been outstanding for a period in excess of six months.	-	Situation still prevails. Refer to Finding 11-03 and related Corrective Action Plan.
10-04	Internal controls over property management need to be strengthened.	-	Situation still prevails. Refer to Finding 11-04 and related Corrective Action Plan.
10-05	The Municipality has deficiencies in the execution of property management procedures.	-	Situation still prevails. Refer to Finding 11-05 and related Corrective Action Plan.
<b>All federal programs</b>			
10-06	The Municipality does not have an effective system to ensure the completeness and accuracy of the employee files.	-	Corrective Action Plan implemented with positive results.
<b>Workforce Investment Act/Workforce Investment Act/ARRA</b>			
10-07	Financial report does not reconcile with Oracle.	-	Situation still prevails. Refer to Finding 11-07 and related Corrective Action Plan.
<b>Home Investment Program</b>			
10-08	The Municipality does not have adequate internal controls over the valuation of subgrantee proposals and monitoring subrecipients activities.	-	Corrective Action Plan implemented with positive results.





# MUNICIPALITY OF SAN JUAN

## Corrective Action Plan Single Audit Requirements as of June 30, 2011

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		
			Management Response and/or Action	Assigned Responsibility	Expected Target Date
11-06	Internal Control	The Municipality does not have an effective system to ensure the completeness and accuracy of the employee files.	<p>The Human Resources Department is continuously reviewing all procedures in order to comply with the requirements for employee records. They have acquired an additional program application that is directed towards employee payroll and personnel transactions that will eliminate all manual filing. The first phase will be implemented by FY 2013.</p> <p>The files regarding this finding are being presented for review and all documents to this respect will be filed and available for FY 2012.</p>	Human Resources Department	JUNE 2012  Continuous
11-07	Internal control/ Compliance	Financial report does not reconcile with Oracle.	<p>We are currently working with this issue and expect that the reconciliation of Federal Reports and ORACLE Reports be completed in April 2012.</p> <p>For FY 2011-2012, the accounts of Administration and Program Categories for each the three WIA Programs (<b>Adults, Dislocated Workers and Youths</b>) were created in ORACLE so that expenses are classified accordingly as they are incurred.</p>	WIA	JUNE 2012
11-08	Compliance	Federal Financial Report has not been submitted.	The Financial Federal reports will be submitted in coordination with the Federal Funds Office of the Finance Department. The Office of Management and Budget will prepare and submit the narrative report and will print and file all the reports submitted through TEAM and provide copies to the Federal Funds Office.	FTA	JUNE 2012

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UNIDAD DE CORREO



# MUNICIPALITY OF SAN JUAN

## *Corrective Action Plan Single Audit Requirements as of June 30, 2011*

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		
			Management Response and/or Action	Assigned Responsibility	Expected Target Date
11-01	Internal Control	Deficit in the Municipality's general fund at June 30, 2011.	Our long term financial plan, will continue to enable us to: (1) finish operations with excess of revenues over expenditures; (2) apply the excess of revenues to the accumulated deficit within a period of 10 years or less; (3) be in compliance with local law which establishes that an outstanding deficit must be amortized in a period no longer than 40 years.	Finance Department	Continuous
11-02	Internal Control	The accounting records are not maintained up to date.	We are working with our IT Office in order to ensure that the format of the information provided by our financial system for reconciliation purposes will be modified to the needs in question. This will allow us to comply with the reconciliations on a timely basis.	Finance Department	Continuous
11-03	Internal Control	The Municipality is not canceling checks which have been outstanding for a period in excess of six months.	As part of the monthly reconciliation process, the Municipality identifies all outstanding checks over six months and adjusts the General Ledger to that effect.  We have modified the instructions on our checks of all checking accounts to read, "NOT VALID AFTER 6 MONTHS OF DATE ISSUED" and sent notices to all banks with the appropriate instructions to this effect. We will continue to follow up on a monthly basis to ascertain that they are in compliance.	Finance Department	Continuous
11-04	Internal Control	Internal controls over property management need to be strengthened.	We are in the process of performing a physical inventory of all vehicles and equipment of the entire Municipality. Since the inventory is in a widely spread environment, this process will take various months to complete. Nevertheless, we have a physical inventory available from each Municipal Dependency and are being confirmed with the current information in our accounting archives.  We continue to review our accounting process in order to segregate the property subsidiary into each program fund as required.	Finance Department	Continuous
11-05	Internal Control	The Municipality has deficiencies in the execution of property management procedures.	We have established procedures which are in effect for the fiscal year 2011-2012 and we understand that we will be in complete compliance in this matter during fiscal year 2012-2013.	Finance Department	JUNE 2013





Municipio de San Juan, Ciudad Capital  
Oficina de Finanzas Municipales  
Tel: 787-480-4129/4130/4131  
Fax: 787-751-6496

RECIBIDO  
UNIDAD DE CORREO  
12-3-2012

## HOJA DE TRÁMITE

Fecha : 30 de marzo de 2012

A :  
Lcdo. Luis Roberto Rivera Cruz  
Comisionado  
OCAM  
Ave. Ponce de León  
Esq. Calle Bolivia, Edif. 255  
Piso 5 (A LA MANO)

De :  
Francisco J. Peña Montañez  
Director Interino

Asunto: SINGLE AUDIT – ENDED JUNE 30, 2011

Para su información

Para acción pertinente

➤ NOTA:

Recibido por: \_\_\_\_\_

Fecha: \_\_\_\_\_

Hora: \_\_\_\_\_

