

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

**MUNICIPIO DE SAN JUAN
AUDITORÍA 2011-2012
30 DE JUNIO DE 2012**

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

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULE**

As of and For the Fiscal Year Ended June 30, 2012
And Independent Auditors' Report



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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, 2012, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express 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. 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-16 and 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standard 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 the 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 of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Aquino, De Córdova, Alfaro & Co., LLP

Aquino, De Córdova, Alfaro & Co., LLP

December 14, 2012

Stamp No. E48748 of the Puerto Rico
Society of Certified Public Accountants
has been affixed to the original report

MANAGEMENT'S DISCUSSION & ANALYSIS



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The Management of the Municipality of San Juan (the "Municipality") provides the Municipality's Annual financial Report and the discussion and analysis of the Municipality's financial performance during the fiscal year ended June 30, 2012.

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 liabilities exceeded its assets at June 30, 2012 by approximately \$4.3 million (net position).
- In the governmental fund financial statements, total revenues decreased approximately \$33.1 million (or 4.6%) while total expenditures increased approximately \$2.3 million (or 0.3%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase in the accumulated deficit by \$29.3 million.
- On a budgetary basis, the General Fund's actual revenues were approximately \$26.5 million less than actual expenditures.
- The Municipality issued bonds and notes amounting to approximately \$126.4 million to finance an early retirement termination benefit, capital improvements and the construction or acquisition of other capital assets.
- The total net position of the proprietary fund decreased by \$233,285 and amounted to (\$434,883) - excess liabilities over assets.

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 Position presents information on all of the Municipality's assets and liabilities, and deferred inflows/outflows of resources and their difference reported as net position. Fluctuations in net position 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 position changed during the most recent fiscal year. All changes in net position 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 charges 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.

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 Position

Condensed net position information is presented below:

	Governmental Activities		Business type Activities		Totals	
	2012	Restated 2011	2012	2011	2012	Restated 2011
ASSETS						
Capital assets	\$ 668,630	\$ 654,605	\$ 53,706	\$ 54,616	\$ 722,336	\$ 709,221
Other assets	445,719	344,237	2,344	1,528	448,063	345,765
Total assets	1,114,349	998,842	56,050	56,144	1,170,399	1,054,986
LIABILITIES						
Current liabilities	295,066	237,762	1,413	1,274	296,479	239,036
Noncurrent liabilities	823,132	752,988	55,072	55,072	878,204	808,060
Total liabilities	1,118,198	990,750	56,485	56,346	1,174,683	1,047,096
NET POSITION						
Invested in capital assets, net of related debt	255,786	273,583	-	-	255,786	273,583
Restricted for:						
Debt service	66,049	38,273	-	-	66,049	38,273
Other purposes	18,742	14,590	-	-	18,742	14,590
Unrestricted	(344,426)	(318,352)	(435)	(202)	(344,861)	(318,554)
Total net position	\$ (3,849)	\$ 8,094	\$ (435)	\$ (202)	\$ (4,284)	\$ 7,892

The Municipality's total assets amounted to \$1,170.4 million at June 30, 2012, an increase of \$115.4 million when compared with the prior year. The increase in other assets of \$102.3 million is mainly due from the proceeds of long-term debt for the acquisition or construction of major capital facilities and other capital assets.

The Municipality's total liabilities amounted to \$1,174.7 million at June 30, 2012, an increase of \$127.6 million when compared with the prior year. The increase is mainly due to: (i) the issuance of general obligation bonds, revenue bond, notes payable and additions to claims and judgments, compensated absences and other long-term liabilities of

approximately \$161.9 million, net of the principal payments and deductions of long-term liabilities of approximately \$91.8 million and, (ii) the revenue anticipation notes payable of \$37.2 million that was payoff subsequent to June 30, 2012.

The largest portion of the Municipality's net position is the negative unrestricted net position. The net position consist of the excess of assets and deferred outflows over related liabilities that are neither externally neither legally restricted, neither invested in capital assets. This negative unrestricted net position is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post closure 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 position 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 position, and these are resources subject to external restrictions for the purposes explained above.

Changes in Net Position

The condensed changes in net position information are presented below:

Condensed Statements of Activities (in thousands) For the Fiscal Years Ended June 30						
	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 48,835	\$ 68,300	\$ 3,057	\$ 1,528	\$ 51,892	\$ 69,828
Operating grants and contributions	131,650	136,488	-	-	131,650	136,488
Capital grants and contributions	3,595	6,330	-	-	3,595	6,330
General revenues:						
Property taxes	260,216	237,819	-	-	260,216	237,819
Municipal license tax	125,998	153,974	-	-	125,998	153,974
Sales Tax	56,876	56,405	-	-	56,876	56,405
Construction excise and other local taxes	18,858	21,985	-	-	18,858	21,985
Grants and contributions not restricted to specific programs	40,265	38,031	-	-	40,265	38,031
Interest income	3,871	2,565	-	-	3,871	2,565
Other	5,251	6,646	-	-	5,251	6,646
Total revenues	695,415	728,543	3,057	1,528	698,472	730,071
Expenses:						
General government	151,099	143,095	-	-	151,099	143,095
Public safety	76,462	63,910	-	-	76,462	63,910
Public works	80,339	78,562	-	-	80,339	78,562
Culture and recreation	26,168	24,001	-	-	26,168	24,001
Health and welfare	252,340	264,980	-	-	252,340	264,980
Urban development	50,644	52,232	-	-	50,644	52,232
Economic development	21,761	26,033	-	-	21,761	26,033
Education	20,232	20,202	-	-	20,232	20,202
Interest on long-term debt	28,313	31,800	-	-	28,313	31,800
International Center	-	-	3,290	1,730	3,290	1,730
Total expenses	707,358	704,815	3,290	1,730	710,648	706,545
Change in net position	(11,943)	23,728	(233)	(202)	(12,176)	23,526
Net position at beginning of year, as restated	8,094	(15,634)	(202)	-	7,892	(15,634)
Net position at end of year	\$ (3,849)	\$ 8,094	\$ (435)	\$ (202)	\$ (4,284)	\$ 7,892

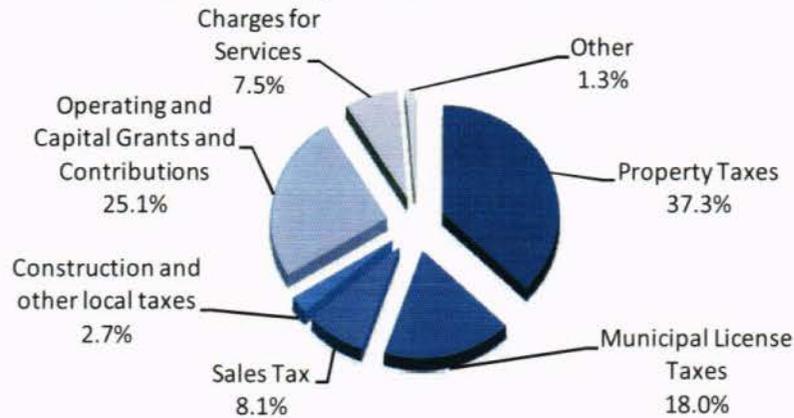
The Municipality's total revenues decreased by approximately \$31.6 million. Approximately, 66.1% (64.4% in 2011) of the Municipality's total revenue came from taxes, while approximately 25.1% (24.8% in 2011) resulted from grants and contributions, including federal aid. Charges for services provided approximately 7.4% (9.6% in 2011) of the total revenues.

Revenues from taxes decreased by approximately \$8.2 million. Revenues from construction and other local taxes decreased by \$3.1 million due to the decrease in construction projects mainly financed by the private sector.

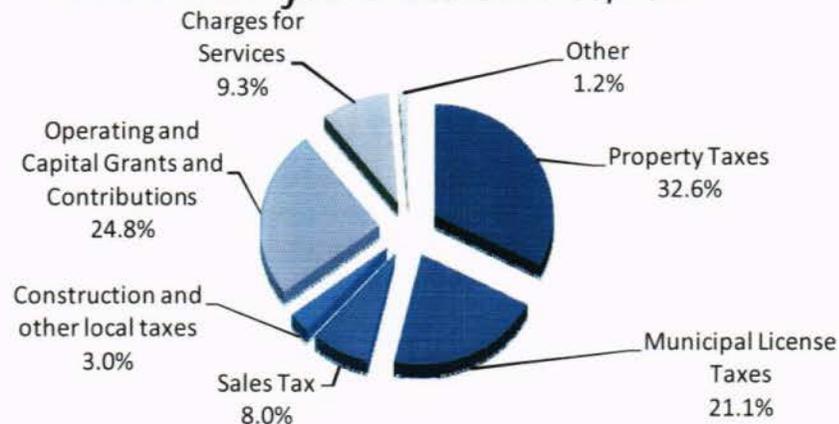
Charges for services decreased by approximately 25.7% when compared with the prior fiscal year mainly due to a decrease in health care service revenues from the public health plan.

The following charts summarize the Municipality's revenues by sources for the governmental activities for the fiscal years ended June 30, 2012 and 2011.

Revenues by Source-Governmental Activities for the fiscal year ended June 30, 2012



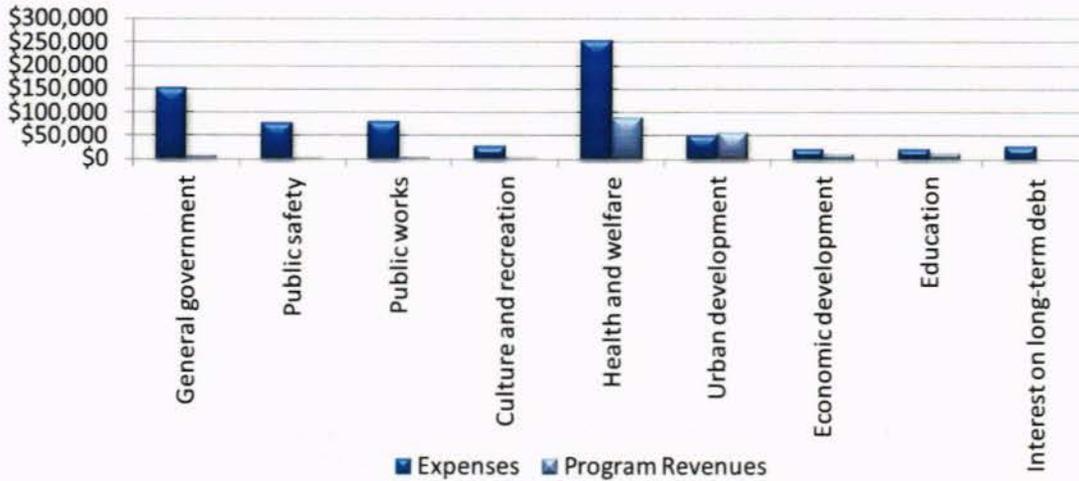
Revenues by Source-Governmental Activities for the fiscal year ended June 30, 2011



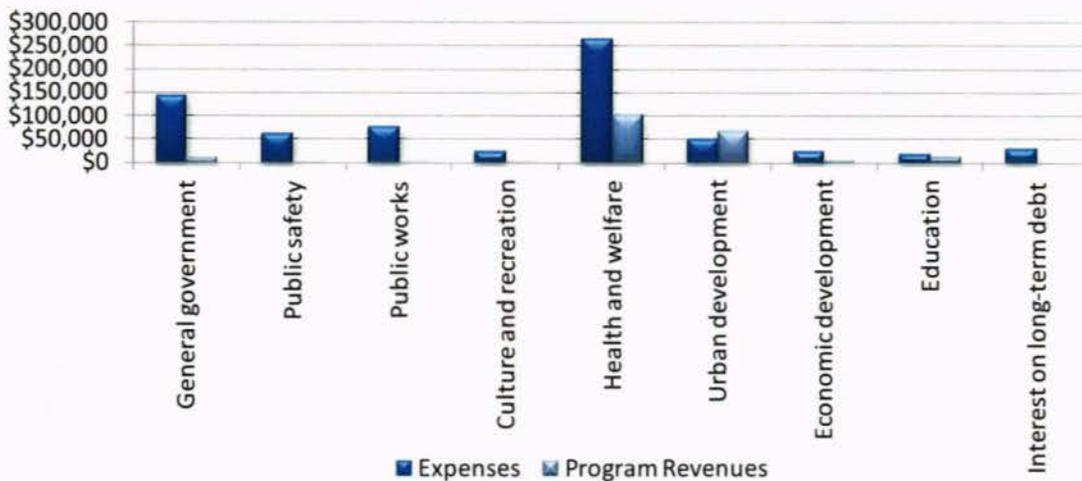
The Municipality's total expenses amounted to \$710.6 million and \$706.7 million for the fiscal years ended June 30, 2012 and 2011, respectively. Increase in total expenses was mainly due to increases in payroll and professional services.

The following chart summarizes the Municipality's program revenues compared to program expenses for the governmental activities for the fiscal years ended June 30, 2012 and 2011.

Expenses and Program Revenues-Governmental Activities
for the fiscal year ended June 30, 2012 (In thousands)



Expenses and Program Revenues-Governmental Activities
for the fiscal year ended June 30, 2011 (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 fund balances of \$150.6 million, a net increase of \$44.2 million in comparison with the prior year. The combined fund balances include nonspendable fund balances amounting to \$31.0 million at June 30, 2012. This is the portion of fund balances that cannot be spent readily with cash or is legally or contractually required not to be spent (\$6.1 million) in the General Fund or they are not expected to be converted in cash soon enough to affect the current period (\$24.9 million). There are restricted fund balances amounting to \$88.6 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 (\$15.2 million); 2) to pay for capital projects (\$7.4 million; and 3) to pay for debt services (\$66.0 million). There are committed fund balances amounting to \$110.9 million that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions to pay for capital projects. Accordingly, since there is an excess of nonspendable, restricted and committed fund balances over total fund balances, a negative unassigned fund balance of \$79.9 million was reported in the governmental funds at June 30, 2012.

Governmental funds include the general fund, which is the main operating fund of the Municipality. As of June 30, 2012 and 2011, the General Fund has an accumulated deficit of \$45.5 million and \$16.2 million, respectively. Key factors in the decrease of General Fund's deficit are as follows:

- ❖ Decrease of \$48.0 million in total revenues.
- ❖ Decrease of \$6.3 million in total expenditures.
- ❖ Other financing sources of \$25.7 million
- ❖ Net operating transfer of \$11.5 million

Decrease of \$48.0 million in total revenues was mainly due to the decrease of \$28.0 million and \$17.3 million in municipal licenses tax and charges for services, respectively. The decrease in municipal licenses is directly related with the consolidation process of three local banks closed by the Federal Deposit Insurance Corporation and its integration process to the acquiring institutions. The decrease in charges for services was mainly due to the delay on negotiation and billing of new medical and facilities charge rates and fees for medical services provided to the public health reform plan.

The decrease of \$6.3 million in expenditures was mainly due to decreases in general government expenditures.

Other financing sources amounting to \$25.7 million result from the proceeds of long-term debt issued.

The net operating transfers of \$11.5 million represented a transfer of \$13.7 million from the Debt Service Fund to the General Fund by Act No. 64 of July 3, 1996, as amended, which allows municipalities that have excess funds to

repay general obligations bonds to transfer such excess to the general fund for operating purposes, net from transfers out amounted to approximately \$2.2 million to federal programs to cover certain expenditures.

Governmental funds also include the Debt Service Fund. The fund balance of the Debt Service Fund as of June 30, 2012 and 2011 amounted to \$66.0 million and \$38.2 million, respectively. The increase of \$27.8 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 \$108.6 million net of payment of principal and interest of \$67.2 million and the above mentioned transfer to the general fund for operating purposes.

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.

At June 30, 2012, the total assets of the proprietary fund amounted to \$56.0 million of which \$53.7 million represents capital assets, net of accumulated depreciation, while \$2.3 million represents cash in commercial banks and accounts receivable. The total liabilities at year-end amounted to \$56.5 million, consisting principally of revenue bonds payable of \$55.1 million, and interest payable of \$1.2 million.

During the current year, rental service charges amount to \$3.0 million, while the operating expenses of the fund amounted to \$0.9 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Municipality approved an original budget for the General Fund of \$496.8 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, 2012 were \$482.4 million while actual expenditures were \$508.9 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2012 and 2011 amounted to approximately \$722.34 million and \$709.2 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings, sites, improvements, equipment, intangibles, infrastructure, works of art, vehicles and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the Municipality, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Capital Assets, Net of Accumulated Depreciation (in thousands)						
As of June 30,						
	Governmental		Business-type		Totals	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ 102,571	\$ 100,704	\$ 18,624	\$ 18,624	\$ 121,195	\$ 119,328
Works of art	2,224	2,224	-	-	2,224	2,224
Buildings and building improvements	253,145	261,327	35,082	35,992	288,227	297,319
Site improvements	67,834	74,368	-	-	67,834	74,368
Infrastructure	177,732	174,604	-	-	177,732	174,604
Equipment and vehicles	19,331	12,915	-	-	19,331	12,915
Construction in progress	45,793	28,463	-	-	45,793	28,463
Total	\$ 668,630	\$ 654,605	\$ 53,706	\$ 54,616	\$ 722,336	\$ 709,221

The increase in the Municipality's capital assets was 0.5% over last year. Actual expenditures to purchase or construct capital assets from the Municipality's governmental activities for the fiscal years ended June 30, 2012 and 2011 were \$55.8 million and \$39.8 million, respectively. Depreciation charges from the Municipality's governmental and business-type activities amounted to \$42.7 million and \$37.1 million for the fiscal years ended June 30, 2012 and 2011, 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, 2012 and 2011, the Municipality has approximately \$110.9 million and \$70.0 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 Government Development Bank for Puerto Rico ("GDB") of approximately \$28.7 billion, the legal debt limit margin of the Municipality as of June 30, 2012, was \$2.9 billion. The Municipality's available legal debt margin as of June 30, 2012, was calculated by GDB to equal \$2.5 billion after subtracting from the legal margin the amount of \$479.4 million in outstanding general obligation debt as of June 30, 2012, and adding to the legal margin the amount in its Redemption Fund of \$47 million as of June 30, 2012.

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 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 2012, the Municipality issued bonds and notes amounting to \$126.4 million to provide for construction projects and equipment needs of the Municipality, and finance the current portion of an early retirement termination benefit. General obligation debt includes bonds, notes and mortgage as shown in the table below:

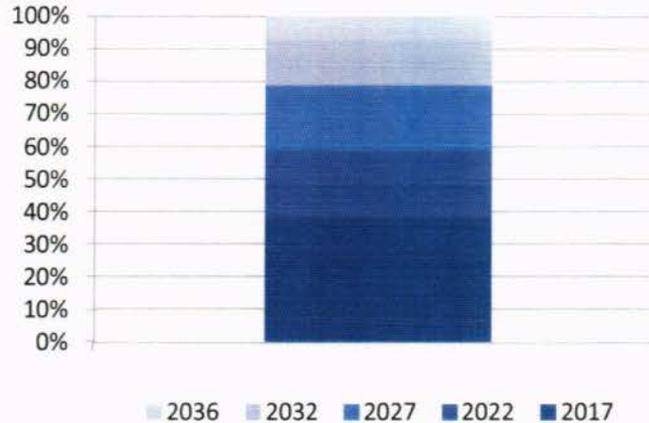
General Outstanding Debt (in thousands) As of June 30,						
	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Bonds payable	\$ 479,437	\$ 394,138	\$ -	\$ -	\$ 479,437	\$ 394,138
Bond anticipation notes	-	1,873	-	-	-	1,873
Notes payable	213,966	228,856	-	-	213,966	228,856
Revenue bonds	-	-	-	55,072	-	55,072
Mortgage payable	3,465	3,836	-	-	3,465	3,836
Total	\$ 696,868	\$ 628,703	\$ -	\$ 55,072	\$ 696,868	\$ 683,775

At June 30, 2012, the Municipality had \$479.4 million of general obligation bonds outstanding. The following chart indicates the principal amortization of the Municipality's general obligation bonds in five-year increments.

General Obligation Bonds Principal Amortization In Five Year Increments Following Fiscal Year 2012 (in thousands)	
Fiscal Years	Principal Amortization
2013-2017	\$ 184,145
2018-2022	96,176
2023-2027	97,992
2028-2032	64,989
2033-2036	36,135
Total	\$ 479,437

As can be seen in the following chart, approximately 78.9% 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 \$214.0 million at June 30, 2012. 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, 2012.

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, 2012. These factors were considered when preparing the Municipality's budget for the 2012-2013 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.

BASIC FINANCIAL STATEMENTS



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MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO

STATEMENT OF NET POSITION
As of June 30, 2012

	Governmental Activities	Business- Type Activities	Total Primary Government
ASSETS			
Cash in commercial banks	\$ 53,807,531	\$ -	\$ 53,807,531
Cash with fiscal agent	267,579,474	-	267,579,474
Accounts receivable:			
Property tax	41,753,175	-	41,753,175
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	21,144,332	-	21,144,332
Other	8,268,406	570,497	8,838,903
Internal balances	242,904	-	242,904
Loans receivable, net	10,393,167	-	10,393,167
Inventories	6,134,873	-	6,134,873
Prepaid insurance	993,333	-	993,333
Other assets	14,443,310	-	14,443,310
Real estate held for sale	175,201	-	175,201
Restricted cash in commercial banks	2,380,077	1,773,398	4,153,475
Capital assets not being depreciated	150,587,793	18,624,329	169,212,122
Capital assets being depreciated, net	518,042,136	35,082,016	553,124,152
Total assets	<u>1,114,348,701</u>	<u>56,050,240</u>	<u>1,170,398,941</u>
LIABILITIES			
Accounts payable and accrued liabilities	84,073,220	-	84,073,220
Intergovernmental payables	12,035,875	-	12,035,875
Internal balances	-	242,904	242,904
Tax revenue anticipation notes payable	37,158,867	-	37,158,867
Unearned revenues:			
Municipal license tax	94,046,364	-	94,046,364
Federal grant revenues	7,766,814	-	7,766,814
Bonds and interest payable	59,984,473	1,170,279	61,154,752
Noncurrent liabilities:			
Due within one year	80,950,759	520,000	81,470,759
Due in more than one year	742,181,517	54,551,940	796,733,457
Total liabilities	<u>1,118,197,889</u>	<u>56,485,123</u>	<u>1,174,683,012</u>
NET POSITION			
Invested in capital assets, net of related debt	255,786,061	-	255,786,061
Restricted for:			
Debt service	66,049,161	-	66,049,161
Other purposes	18,742,315	-	18,742,315
Unrestricted	(344,426,725)	(434,883)	(344,861,608)
Total net position	<u>\$ (3,849,188)</u>	<u>\$ (434,883)</u>	<u>\$ (4,284,071)</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, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 151,098,802	\$ 6,728,846	\$ -	\$ -	\$ (144,369,956)	\$ -	\$ (144,369,956)
Public safety	76,462,134	603,075	2,695,562	12,822	(73,150,675)	-	(73,150,675)
Public works	80,339,038	16,264	2,245,232	2,238,359	(75,839,183)	-	(75,839,183)
Culture and recreation	26,167,621	2,121,060	-	-	(24,046,561)	-	(24,046,561)
Health and welfare	252,339,989	27,090,065	60,105,857	353,963	(164,790,104)	-	(164,790,104)
Urban development	50,644,013	2,744,380	53,294,242	989,731	6,384,340	-	6,384,340
Economic development	21,760,817	4,886,980	6,524,665	-	(10,349,172)	-	(10,349,172)
Education	20,232,620	4,644,102	6,784,529	-	(8,803,989)	-	(8,803,989)
Interest on long-term debt	28,312,858	-	-	-	(28,312,858)	-	(28,312,858)
Total governmental activities	707,357,892	48,834,772	131,650,087	3,594,875	(523,278,158)	-	(523,278,158)
Business-type activities:							
International Center	3,290,474	3,057,189	-	-	-	(233,285)	(233,285)
Total	\$ 710,648,366	\$ 51,891,961	\$ 131,650,087	\$ 3,594,875	(523,278,158)	(233,285)	(523,511,443)
General revenues:							
Property taxes					260,215,514	-	260,215,514
Municipal license tax					125,997,975	-	125,997,975
Sales tax					56,876,237	-	56,876,237
Construction and other local taxes					18,858,440	-	18,858,440
Grants and contributions not restricted to specific programs					40,265,139	-	40,265,139
Interest income					3,871,392	-	3,871,392
Other					5,250,763	-	5,250,763
Total general revenues					511,335,460	-	511,335,460
Change in net position					(11,942,698)	(233,285)	(12,175,983)
Net position at beginning of year, as restated					8,093,510	(201,598)	7,891,912
Net position at end of year					\$ (3,849,188)	\$ (434,883)	\$ (4,284,071)

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, 2012

	General Fund	Debt Service Funds	2011 Bond Issue Funds	Other Governmental Funds	Total
ASSETS					
Cash in commercial banks	\$ 20,828,525	\$ -	\$ -	\$ 32,979,006	\$ 53,807,531
Cash with fiscal agent	5,632,239	121,884,937	92,692,314	47,369,984	267,579,474
Accounts receivable:					
Property tax	18,769,478	22,983,697	-	-	41,753,175
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	4,664,563	-	-	16,479,769	21,144,332
Other	7,611,314	-	-	657,092	8,268,406
Interfund receivable from proprietary fund	242,904	-	-	-	242,904
Loans receivable, net	-	-	-	10,393,167	10,393,167
Due from other funds	58,337,507	-	-	3,164,017	61,501,524
Inventories	6,110,479	-	-	24,394	6,134,873
Prepaid insurance	993,333	-	-	-	993,333
Other assets	14,443,310	-	-	-	14,443,310
Real estate held for sale	-	-	-	175,201	175,201
Restricted cash in commercial banks	-	-	-	2,380,077	2,380,077
Total assets	\$ 156,036,641	\$ 144,868,634	\$ 92,692,314	\$ 113,622,707	\$ 507,220,296
LIABILITIES AND FUND BALANCES (DEFICIT)					
Liabilities:					
Accounts payable and accrued liabilities	\$ 59,694,715	\$ -	\$ 2,391,080	\$ 21,987,425	\$ 84,073,220
Intergovernmental payables	10,592,266	-	-	1,443,609	12,035,875
Due to other funds	-	18,835,000	1,334,448	41,332,076	61,501,524
Tax revenue anticipation notes payable	37,158,867	-	-	-	37,158,867
Matured bonds and interest payable	-	59,984,473	-	-	59,984,473
Unearned revenues:					
Municipal license tax	94,046,364	-	-	-	94,046,364
Federal grant revenues	-	-	-	7,766,814	7,766,814
Total liabilities	201,492,212	78,819,473	3,725,528	72,529,924	356,567,137
Fund balances (deficit):					
Nonspendable	20,553,789	-	-	10,417,561	30,971,350
Restricted	2,645,082	66,049,161	-	19,967,693	88,661,936
Committed	-	-	88,966,786	21,982,181	110,948,967
Unassigned	(68,654,442)	-	-	(11,274,652)	(79,929,094)
Total fund balances (deficit)	(45,455,571)	66,049,161	88,966,786	41,092,783	150,653,159
Total liabilities and fund balances (deficit)	\$ 156,036,641	\$ 144,868,634	\$ 92,692,314	\$ 113,622,707	\$ 507,220,296

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, 2012

	General Fund	Debt Service Funds	2011 Bond Issue Funds	Other Governmental Funds	Total
REVENUES					
Property taxes	\$ 160,185,580	\$ 100,029,934	\$ -	\$ -	\$ 260,215,514
Municipal license tax	125,997,975	-	-	-	125,997,975
Sales tax	48,370,855	8,505,382	-	-	56,876,237
Construction excise tax	18,858,440	-	-	-	18,858,440
License and permits	2,744,381	-	-	-	2,744,381
Charges for Services	39,917,501	-	-	2,319,416	42,236,917
Fine and forfeitures	3,853,475	-	-	-	3,853,475
Interest	3,184,336	68,867	-	618,189	3,871,392
Intergovernmental					
Federal	-	-	-	133,299,431	133,299,431
Local	40,265,139	-	-	1,945,530	42,210,669
Other	3,566,814	-	-	1,683,949	5,250,763
Total revenues	<u>446,944,496</u>	<u>108,604,183</u>	<u>-</u>	<u>139,866,515</u>	<u>695,415,194</u>
EXPENDITURES					
Current					
General Government	128,710,382	-	-	15,660,883	144,371,265
Public Safety	61,496,445	-	-	3,410,347	64,906,792
Public works	75,865,299	-	-	2,806,729	78,672,028
Culture and recreation	15,561,254	-	-	996,611	16,557,865
Health and welfare	197,721,501	-	-	48,676,037	246,397,538
Urban development	4,756,739	-	-	45,840,677	50,597,416
Economic development	7,980,595	-	-	7,250,724	15,231,319
Education	10,756,281	-	-	7,765,803	18,522,084
Capital outlays	276,324	-	34,114,351	21,442,962	55,833,637
Debt Service					
Principal	4,395,556	48,081,000	1,873,060	3,880,854	58,230,470
Interest	5,892,914	19,098,640	79,009	3,242,295	28,312,858
Total expenditures	<u>513,413,290</u>	<u>67,179,640</u>	<u>36,066,420</u>	<u>160,973,922</u>	<u>777,633,272</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES					
	<u>(66,468,794)</u>	<u>41,424,543</u>	<u>(36,066,420)</u>	<u>(21,107,407)</u>	<u>(82,218,078)</u>
OTHER FINANCING SOURCES:					
Transfer in	13,648,789	-	-	2,176,959	15,825,748
Proceeds from bonds issued	25,725,000	-	100,670,000	-	126,395,000
Transfer out	(2,176,959)	(13,648,789)	-	-	(15,825,748)
Total other financing sources (uses), net	<u>37,196,830</u>	<u>(13,648,789)</u>	<u>100,670,000</u>	<u>2,176,959</u>	<u>126,395,000</u>
NET CHANGE IN FUND BALANCES (DEFICIT)					
	<u>(29,271,964)</u>	<u>27,775,754</u>	<u>64,603,580</u>	<u>(18,930,448)</u>	<u>44,176,922</u>
FUND BALANCES (DEFICIT), BEGINNING OF					
	<u>(16,183,607)</u>	<u>38,273,407</u>	<u>24,363,206</u>	<u>60,023,231</u>	<u>106,476,237</u>
FUND BALANCES (DEFICIT), END OF YEAR					
	<u>\$ (45,455,571)</u>	<u>\$ 66,049,161</u>	<u>\$ 88,966,786</u>	<u>\$ 41,092,783</u>	<u>\$ 150,653,159</u>

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12/31/12*

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

		International Center
ASSETS		
Current assets:		
Restricted cash in commercial banks	\$	1,773,398
Accounts receivable		570,497
Total current assets		<u>2,343,895</u>
Noncurrent assets:		
Capital assets not being depreciated		18,624,329
Capital assets being depreciated, net		<u>35,082,016</u>
Total noncurrent assets		53,706,345
Total assets	\$	<u>56,050,240</u>
LIABILITIES		
Current liabilities:		
Interfund payable to the general fund	\$	242,904
Revenue bonds interest payable		1,170,279
Total current liabilities		<u>1,413,183</u>
Noncurrent liabilities:		
Due within one year		520,000
Due in more than one year		<u>54,551,940</u>
Total noncurrent liabilities		55,071,940
Total liabilities		<u>56,485,123</u>
NET POSITION		
Unrestricted		(434,883)
Total net position	\$	<u>(434,883)</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, EXPENSES AND
CHANGES IN NET POSITION-
PROPRIETARY FUND
For the Fiscal Year Ended June 30, 2012

	International Center
OPERATING RENT REVENUES	
Rent charges	\$ 3,057,189
OPERATING EXPENSES	
Depreciation expense	910,000
Other	39,917
Total operating expenses	<u>949,917</u>
OPERATING INCOME	2,107,272
NONOPERATING EXPENSES	
Interests on long-term debt	<u>(2,340,557)</u>
CHANGE IN NET POSITION	(233,285)
NET POSITION, BEGINNING OF YEAR	<u>(201,598)</u>
NET POSITION, END OF YEAR	<u>\$ (434,883)</u>

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

	International Center
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	
Receipts from lease tenants	\$ 2,486,692
Other payments	(39,917)
Net cash provided by operating activities	<u>2,446,775</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Charges and interest paid	(2,444,582)
Other receipts	242,904
Net cash used in capital and related financing activities	<u>(2,201,678)</u>
NET INCREASE IN RESTRICTED CASH IN COMMERCIAL BANKS	245,097
RESTRICTED CASH IN COMMERCIAL BANKS, BEGINNING OF YEAR	<u>1,528,301</u>
RESTRICTED CASH IN COMMERCIAL BANKS, END OF YEAR	<u>\$ 1,773,398</u>
RECONCILIATION OF OPERATING INCOME TO CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 2,107,272
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	910,000
Net increase in accounts receivable	<u>(570,497)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,446,775</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 FUNDS,
AND THE STATEMENT OF NET POSITION - PROPRIETARY FUND TO THE
STATEMENT OF NET POSITION
As of June 30, 2012

	Governmental Activities	Business-type Activities	Total
Total fund balances/net position as reported in the balance sheet - governmental funds, and as reported in the statement of net position - proprietary fund	\$ 150,653,159	\$ (434,883)	\$ 150,218,276
Amounts reported for governmental and business-type activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Land	102,570,896	-	102,570,896
Building and site improvements, net of depreciation	320,979,203	-	320,979,203
Infrastructure, net of depreciation	177,731,715	-	177,731,715
Equipment and vehicles, net of depreciation	19,331,218	-	19,331,218
Works of art	2,224,365	-	2,224,365
Construction in progress	45,792,532	-	45,792,532
Total	<u>668,629,929</u>	<u>-</u>	<u>668,629,929</u>
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	(479,437,000)	-	(479,437,000)
Mortgage payable	(3,465,315)	-	(3,465,315)
Notes payable	(213,965,646)	-	(213,965,646)
Compensated absences	(54,328,616)	-	(54,328,616)
Pension-related debt	(12,439,241)	-	(12,439,241)
Claims and judgments	(30,000,000)	-	(30,000,000)
Landfill obligation	(16,200,000)	-	(16,200,000)
Other liabilities	(13,296,458)	-	(13,296,458)
Total	<u>(823,132,276)</u>	<u>-</u>	<u>(823,132,276)</u>
Total net position of governmental and business-type activities	<u>\$ (3,849,188)</u>	<u>\$ (434,883)</u>	<u>\$ (4,284,071)</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 POSITION - GOVERNMENTAL FUNDS AND
PROPRIETARY FUND TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2012

	Governmental Activities	Business-type Activities	Total
Net change in fund balances (deficit)/net position as reported in the statement of revenues, expenditures/expenses and changes in fund balances (deficit)/net position - governmental funds and proprietary fund	\$ 44,176,922	\$ (233,285)	\$ 43,943,637
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	55,833,637	-	55,833,637
Current year depreciation	(41,809,084)	-	(41,809,084)
	<u>14,024,553</u>	<u>-</u>	<u>14,024,553</u>
The issuance of long-term debt provides current financial resources to governmental funds. This amount is the proceeds from issuance of bonds.	(126,395,000)	-	(126,395,000)
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 position:			
Bonds	41,096,000	-	41,096,000
Bonds anticipation note	1,873,060	-	1,873,060
Mortgage payable	370,854	-	370,854
Notes payable	14,890,556	-	14,890,556
	<u>58,230,470</u>	<u>-</u>	<u>58,230,470</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.			
Change in pension-related debt	25,632,748	-	25,632,748
Claim and judgments	(23,900,000)	-	(23,900,000)
Landfill obligation	900,000	-	900,000
Compensated absences	(1,777,371)	-	(1,777,371)
Other liabilities	(2,835,020)	-	(2,835,020)
	<u>(1,979,643)</u>	<u>-</u>	<u>(1,979,643)</u>
Change in net position of governmental activities and business-type activities	\$ (11,942,698)	\$ (233,285)	\$ (12,175,983)

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, 2012, 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, 2012, in conformity with USGAAP. Furthermore, the basic financial statements referred to above present the cash flows of the proprietary fund for the fiscal year ended June 30, 2012 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, 2012.

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 position 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 position 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. Residual balances outstanding between the governmental activities and business-type activities are reported in the GWFS as "internal balances".

On July 1, 2011 the Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of deferred Outflows of resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63). Accordingly, the accompanying statement of net position reports as net position the difference between all assets plus deferred outflows of resources less all liabilities.

- 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.

2011 Bond Issue Funds - is a major governmental fund used to account for and report for the proceeds of specific revenue sources that is committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by general obligation bond proceeds.

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 position – proprietary fund, statement of revenues, expenses and changes in net position – 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 through the issuance of revenue bonds.

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 Position – Proprietary Fund to the GWFS Statement of Net Position; and the Reconciliation of the Statements of Revenues, Expenditures\Expenses and Changes in Fund Balances\Net Position – 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, 2012. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned 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 Position. 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, 2012. At June 30, 2012, all revenue sources met this availability criterion.

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

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

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2012.

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, 2012, which are recorded as governmental fund liabilities at June 30, 2012 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 Position. 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 position

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 Bond Issue Funds and 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 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 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." Any residual balances outstanding between the governmental activities and business-type activities are reported in the GWFS as "internal balances".

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, 2012 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, 2012. 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 (Deficit) – 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, 2012.

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 primarily 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, 2012 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, 2012 since they are not expected to be currently converted to cash after the current fiscal year-end.

5) *Prepaid insurance:*

Prepaid insurance represents certain payments to reflect insurance costs applicable to fiscal year 2013 and are recorded in both the GWFS and GFFS. The cost of prepaid insurance is recorded as expenditures/expenses proportionately over the period of the insurance coverage under the consumption method rather than paid.

6) *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, 2012.

7) *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, 2012 since they are not expected to be currently converted to cash after the current fiscal year-end.

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, 2012, consist primarily of computer software.

9) *Unearned revenues:*

In the GFFS, unearned 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, 2012 and collected within 90 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for unearned revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenues in the GWFS arise only when the Municipality receives resources before it has a legal claim to them.

10) *Tax revenue anticipation notes:*

Tax revenues anticipation notes consist of short-term debt issued to finance certain operations expenses of the general fund which is repayable from anticipated municipal license and sales tax revenues of the general fund.

11) *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.

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, 2012 are recorded as governmental fund liabilities in the GFFS (debt service fund) when resources are available in the debt service funds (June 30, 2012).

Non-interest bearing notes payable are accounted for 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.

12) *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 Position. 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 position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2012 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.

13) *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 position as incurred, pursuant to the provisions of FASB Accounting Standards Codification 450, *Contingencies*.

14) *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 Position, 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 estimate 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).

15) *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 spendable 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).

16) *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, 2012.

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.

17) *Net Position:*

Net position has been reported pursuant to the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63). Net position represents the difference between all assets plus deferred outflows of resources less all liabilities less all deferred inflows of resources.

The restricted component of net position consists of 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 position 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 position. 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 position is classified in the accompanying Statement of Net Position within the following four components:

- a. *Invested in capital assets, net of related debt* – This component of net position 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 position restricted for debt service* – This component of net position 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 position restricted for other purposes* – This component of net position consists of net resources externally restricted by creditors, grantors, contributors, laws and regulations to cover specific program purposes.
- d. *Unrestricted net position* – Generally, this component consists of the net amount of assets, deferred outflows of resources and liabilities that are neither not externally nor legally restricted, neither invested in capital assets. Resources 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.

18) *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.

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

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

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

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

20) *Risk financing.*

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. 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, 2012. 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, 2012 amounted to approximately \$9.8 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, 2012 amounted to approximately \$5.4 million.

21) *Direct charges:*

Pursuant to and determined by an internal cost allocation plan, certain costs initially borne by the general fund are then billed as direct charges to other funds of the Municipality. Revenues from these charges are accounted for in the government-wide Statement of Activities as general government and in the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) as charges for services in the general fund. The corresponding expenses appear as function/program costs in the Statement of Activities.

22) *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.

23) *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.

24) *Future adoption of accounting pronouncements:*

The GASB has issued the following statements that have effective dates after June 30, 2012:

- a. 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.
- b. 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.
- c. GASB Statement No. 66, *Technical Corrections-2012, an amendment of GASB Statement No. 10 and No. 62* (GASB 66). The requirements of this Statement are effective for periods beginning after December 15, 2012.
- d. GASB Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25* (GASB 67). The requirements of this Statement are effective for the fiscal year beginning after June 15, 2013.
- e. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* (GASB 68). The requirements of this Statement are effective for the fiscal year beginning after June 15, 2014.

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, 2012 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, 2012, the pool cash account in commercial banks had a balance of \$53.8 million of which \$20.8 million and \$33.0 million have been recorded in the general fund, and other governmental 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 \$121.9 million that are restricted for the payment of the Municipality's debt service, as required by law. Cash with fiscal agent of \$5.6 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 \$92.7 million and \$47.4 million in 2011 bond issued funds and other governmental funds respectively 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 \$33.0 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 \$2.4 million represents mortgage escrow deposits, reserve for replacement and residual receipts deposited with the mortgagee.

Restricted cash in commercial banks of \$1.7 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, 2012:

- 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, 2012. 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, 2012.

- 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, 2012, (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, 2012, 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, 2012, the Municipality has balances deposited in commercial banks amounting to \$75.0 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 \$267.6 million (\$273.1 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, 2012. 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, 2012, 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. According 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, 2012.

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, 2012 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, 2012 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.

Property tax receivable represents property taxes levied that were collected subsequent to June 30, 2012, but pertaining to current year period.

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, 2012, 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, 2012. Municipal license taxes collected prior to June 30, 2012 but pertaining to the next fiscal year are recorded as unearned 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, 2012, 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, 2012, but pertaining to current year period.

D. Intergovernmental Receivables

The composition of intergovernmental receivables in the general fund at June 30, 2012 is:

	General Fund	Other Governmental Funds	Total
State and local intergovernmental entities:			
Puerto Rico Electrical Power Authority (PREPA)	\$ 4,310,547	\$ -	\$ 4,310,547
Others	354,016	-	354,016
Total state and local intergovernmental entities	<u>4,664,563</u>	<u>-</u>	<u>4,664,563</u>
Federal grants and contributions:			
Head Start	-	4,497,197	4,497,197
Community Services Block Grant	-	1,713,784	1,713,784
Community Development Block Grant	-	1,284,662	1,284,662
Workforce Investment Act	-	1,178,770	1,178,770
Supportive Housing Program	-	567,777	567,777
Housing Opportunities for Persons with AIDS	-	553,676	553,676
Risk Reduction	-	508,596	508,596
HIV Emergency Relief Formula Grant	-	396,350	396,350
Others	-	5,778,957	5,778,957
Total federal grants and contributions	<u>-</u>	<u>16,479,769</u>	<u>16,479,769</u>
Total intergovernmental receivables	<u>\$ 4,664,563</u>	<u>\$ 16,479,769</u>	<u>\$ 21,144,332</u>

Amounts due from the PREPA represents the net receivable from the excess of contributions in lieu of taxes of \$31,892,215 charged by the Municipality over the actual electric power consumption expense/expenditure of \$27,581,668 charged by PREPA for the fiscal year ended June 30, 2012.

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, 2012, 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	1,034,790	657,092	1,691,882
Total other receivables	<u>\$ 7,611,314</u>	<u>\$ 657,092</u>	<u>\$ 8,268,406</u>

5. Other Assets

Other assets amounting to \$14,443,310 in the general fund 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 years ended June 30, 2010 and 2011. The amounts recorded as other assets represent the portion of the Municipality's property tax collections that remained unremitted as of June 30, 2012.

6. Loans Receivable, Net

Loans at June 30, 2012 amounting to \$10,393,167 in other governmental funds 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, 2012 are summarized as follows:

A. Due from/to Other fund

Receivable Fund	Payable Fund			Total
	Debt Service Funds	2011 Bond issue Funds	Other Governmental Funds	
General	\$ 18,835,000	\$ 1,334,448	\$ 38,168,059	\$ 58,337,507
Other Governmental Funds	-	-	3,164,017	3,164,017
Total	<u>\$ 18,835,000</u>	<u>\$ 1,334,448</u>	<u>\$ 41,332,076</u>	<u>\$ 61,501,524</u>

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, 2012, there were approximately \$18.8 million of such excess of cash recorded as due from other funds in the general fund.

2) *Other Governmental Funds:*

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

B. Transfer in(out)

During fiscal year 2012, the Municipality accumulated an excess of cash arising from the ad valorem taxes over the actual debt service requirements of bonds of approximately \$13.6 million. Such amount was recorded as due to/from the debt service fund to the general fund for working capital purposes, since it will be transferred during fiscal year 2013. Also, during the fiscal year ended June 30, 2012, the Municipality made routinary transfers of approximately \$2.2 million from the general fund to other governmental funds to finance certain federal programs.

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, 2012 was as follows:

Governmental Activities:	Balance July 1, 2011	Reclassifications	Additions	Retirements and Adjustments	Balance June 30, 2012
Capital assets, not being depreciated:					
Land	\$ 100,703,974	\$ -	\$ 1,866,922	\$ -	\$ 102,570,896
Works of art	2,224,365	-	-	-	2,224,365
Construction in progress	28,463,040	(14,687,467)	32,016,959	-	45,792,532
Total capital assets not being depreciated	<u>131,391,379</u>	<u>(14,687,467)</u>	<u>33,883,881</u>	<u>-</u>	<u>150,587,793</u>
Capital assets, being depreciated:					
Buildings and building improvements	433,140,941	1,487,170	8,138,024	-	442,766,135
Site improvements	174,140,641	947,999	2,586,042	-	177,674,682
Infrastructure	244,262,726	12,252,298	729,264	-	257,244,288
Equipment and vehicles	83,489,677	-	10,496,426	(3,337,306)	90,648,797
Intangible	3,825,426	-	-	-	3,825,426
Total capital assets being depreciated	<u>938,859,411</u>	<u>14,687,467</u>	<u>21,949,756</u>	<u>(3,337,306)</u>	<u>972,159,328</u>
Less accumulated depreciation for:					
Buildings and building improvements	(171,813,679)	-	(17,807,448)	-	(189,621,127)
Site improvements	(99,772,331)	-	(10,068,156)	-	(109,840,487)
Infrastructure	(69,659,066)	-	(9,853,507)	-	(79,512,573)
Equipment and vehicles	(70,574,912)	-	(4,079,973)	3,337,306	(71,317,579)
Intangible	(3,825,426)	-	-	-	(3,825,426)
Total accumulated depreciation	<u>(415,645,414)</u>	<u>-</u>	<u>(41,809,084)</u>	<u>3,337,306</u>	<u>(454,117,192)</u>
Total capital assets being depreciated, net	<u>523,213,997</u>	<u>14,687,467</u>	<u>(19,859,328)</u>	<u>-</u>	<u>518,042,136</u>
Governmental activities capital assets, net	<u>\$ 654,605,376</u>	<u>\$ -</u>	<u>\$ 14,024,553</u>	<u>\$ -</u>	<u>\$ 668,629,929</u>
Business-type Activities:	Balance July 1, 2011	Reclassifications	Additions	Retirements and Adjustments	Balance June 30, 2012
Capital assets, not being depreciated:					
Land	\$ 18,624,329	\$ -	\$ -	\$ -	\$ 18,624,329
Total capital assets not being depreciated	<u>18,624,329</u>	<u>-</u>	<u>-</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>36,447,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,447,611</u>
Less accumulated depreciation for:					
Buildings and building improvements	(455,595)	-	(910,000)	-	(1,365,595)
Total accumulated depreciation	<u>(455,595)</u>	<u>-</u>	<u>(910,000)</u>	<u>-</u>	<u>(1,365,595)</u>
Total capital assets being depreciated, net	<u>35,992,016</u>	<u>-</u>	<u>(910,000)</u>	<u>-</u>	<u>35,082,016</u>
Business-type activities capital assets, net	<u>\$ 54,616,345</u>	<u>\$ -</u>	<u>\$ (910,000)</u>	<u>\$ -</u>	<u>\$ 53,706,345</u>

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

Governmental activities:	Amount
General government	\$ 5,466,682
Public safety	10,999,953
Public works	2,249,762
Culture and recreation	9,511,750
Health and welfare	5,420,674
Urban development	10,170
Economic development	6,472,744
Education	1,677,349
Total depreciation expense – governmental activities	\$ 41,809,084

Business-type activities	Amount
International Center	\$ 910,000
Total depreciation expense – business-type activities	\$ 910,000

9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2012 are summarized as follows:

	General Fund	2011 Bond Issue Funds	Other Governmental Funds	Total
Accounts payable	\$ 57,280,181	\$2,391,080	\$ 21,461,142	\$ 81,132,403
Accrued liabilities	2,414,534		526,283	2,940,817
Total	\$ 59,694,715	\$2,391,080	\$ 21,987,425	\$ 84,073,220

10. Intergovernmental Payables

Intergovernmental payables at June 30, 2012 are summarized as follows:

	General Fund	Other Governmental Funds	Total
Puerto Rico Employees Retirement System	\$ 5,096,490	\$ -	\$ 5,096,490
Puerto Rico Department of Treasury	4,486,724	-	4,486,724
Puerto Rico School of Medicine	-	511,906	511,906
Puerto Rico Land Authority	-	270,463	270,463
Puerto Rico Aqueduct and Sewer Authority	261,895	-	261,895
Other	747,157	661,240	1,408,397
Total	<u>\$ 10,592,266</u>	<u>\$ 1,443,609</u>	<u>\$ 12,035,875</u>

11. Unearned Revenues

A. Municipal License Tax

The unearned revenues of approximately \$94.0 million in the general fund at June 30, 2012 relate to municipal license tax collected in fiscal year 2012 that will be earned in fiscal year 2013.

B. Federal Government

The unearned 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	\$ 2,231,105
Department of Treasury Equitable Sharing	576,181
WESTAT	570,548
Child and Adult Care Food Program	562,056
Childhood Immunization Grants	390,846
Others	3,436,078
Total	<u>\$ 7,766,814</u>

12. Long-Term Debt

Long-term liability activity for the year ended June 30, 2012, was as follows:

Governmental activities	Beginning	Borrowings	Payments	Ending	Due Within
	Balance	or Additions	or Deductions	Balance	One Year
Bonds payable	\$ 394,138,000	\$ 126,395,000	\$ (41,096,000)	\$ 479,437,000	\$ 42,846,000
Bond anticipation note	1,873,060	-	(1,873,060)	-	-
Mortgage payable	3,836,169	-	(370,854)	3,465,315	403,364
Notes payable	228,856,202	-	(14,890,556)	213,965,646	15,811,355
Compensated absences	52,551,245	6,217,863	(4,440,492)	54,328,616	6,500,000
Pension-related debt	38,071,989	-	(25,632,748)	12,439,241	3,928,188
Claims and judgments	6,100,000	25,530,892	(1,630,892)	30,000,000	1,000,000
Landfill obligation	17,100,000	-	(900,000)	16,200,000	900,000
Other liabilities	10,461,438	3,761,367	(926,347)	13,296,458	9,561,852
Total governmental activities long-term liabilities	<u>\$ 752,988,103</u>	<u>\$ 161,905,122</u>	<u>\$ (91,760,949)</u>	<u>\$ 823,132,276</u>	<u>\$ 80,950,759</u>

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

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, 2012 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 2012, the Municipality issued bonds for approximately \$126.4 million.

Bonds payable outstanding at June 30, 2012 are as follows:

Description	Outstanding Amount
2012 general obligation bonds for the construction, improvements and acquisitions of various capital assets with an original amount of \$100.7 million due in annual installments of \$1,615,000 to \$8,530,000, through July 1, 2035; with interest ranging from 6.5% to 7.5%	\$99,055,000

Description	Outstanding Amount
2012 general obligation bonds for the fifth payment of the early retirement termination benefit with an original amount of \$25.7 million due in annual installments of \$375,000 to \$2,145,000 through July 1, 2036; with interest ranging from 4.8% to 7.5%	25,350,000
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%	18,915,000
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%	26,920,000
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%	10,375,000
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%	7,715,000
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%	12,405,000
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%	3,440,000
2009 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$16.9 million due in annual installments of \$430,000 to \$1,585,000, through July 1, 2027; with interest ranging from 4.75% to 7.5%	14,995,000
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%	3,920,000

Description	Outstanding Amount
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%	18,235,000
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%	4,310,000
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%	3,665,000
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%	11,490,000
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%	20,027,000
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%	14,535,000
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%	13,480,000
2004 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$10.1 million due in annual installments of \$500,000 to \$870,000, through July 1, 2019; with interest ranging from 3.28% to 4.80%	5,430,000
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%	15,315,000

Description	Outstanding Amount
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%	8,795,000
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%	42,920,000
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%	1,195,000
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%	7,485,000
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%	30,000,000
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%	7,255,000
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%	22,675,000
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%	20,415,000
1998 general obligations bonds for the construction and improvements of various capital assets with an original amount of \$18.3 million due in annual installments of \$350,000 to \$1,605,000, through July 1, 2019; with interest ranging from 4.87% to 6.71%	9,120,000
Total	<u>\$479,437,000</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, 2012, 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
2013	\$ 42,846,000	\$ 29,053,376
2014	36,808,000	29,101,833
2015	37,318,000	26,867,709
2016	35,701,000	24,166,584
2017	31,472,000	22,269,069
2018-2022	96,176,000	88,083,462
2023-2027	97,992,000	56,947,359
2028-2032	64,989,000	27,906,072
2033-2036	36,135,000	7,505,909
Total	<u>\$ 479,437,000</u>	<u>\$ 311,901,373</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 (3.97% at June 30, 2012).

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, 2012.

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

Year ending June 30,	Principal	Interest
2013	\$ 520,000	\$ 2,307,274
2014	570,000	2,283,166
2015	610,000	2,257,366
2016	660,000	2,229,451
2017	700,000	2,229,451
2018-2022	4,420,000	10,652,406
2023-2027	6,330,000	9,568,385
2028-2032	9,100,000	8,011,506
2033-2036	32,161,940	5,777,484
Total	<u>\$ 55,071,940</u>	<u>\$ 45,316,489</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. During fiscal year ended June 30, 2012, the Municipality payoff the BANS with a long-term bond issued.

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
2013	\$ 403,634	\$ 279,067
2014	439,312	243,390
2015	478,143	204,560
2016	520,403	162,296
2017	566,405	116,297
2018-2019	1,057,418	80,404
Total	<u>\$ 3,465,315</u>	<u>\$ 1,086,014</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, 2012 approximates \$23.0 million. The repayment agreement is payable in monthly installments of \$168,685 from unrestricted property tax revenues and bears interest at a fixed interest rate of 6.19%.

During November 2004, the Municipality issued a special obligation refunding note with a commercial bank for approximately \$40 million to refinance certain notes payable to GDB. The note bears interest at 90-day London Interbank Offering Rate ("LIBOR") plus 1.25% (1.72% at June 30, 2012) 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, 2012 approximates \$32.8 million. This note will be repaid from unrestricted property tax revenues.

During May 2005, the Municipality issued a note payable to GDB for approximately \$17.3 million. The note is payable in annual installments ranging from \$1.4 to \$2.1 million through July 2014 and bears interest at 1.25% over 90-day LIBOR with a minimum of 5% and maximum of 12% (1.72% at June 30, 2012). The outstanding balance as of June 30, 2012 approximates \$4.2 million. The proceeds of the note were used principally to pay debt incurred in prior years. This note will be repaid from unrestricted property tax revenues.

During June 2006, the Municipality issued a note payable to GDB for \$31.4 million. The note is payable in annual installments through July 2030 ranging from \$0.5 to \$2.4 million and will bear interest at 90-day LIBOR plus 1.25 percent (1.72% at June 30, 2012). The outstanding balance as of June 30, 2012 approximates \$26.8 million. The proceeds of the note were used principally to pay debt incurred in prior years. This note will be repaid from unrestricted property tax revenues.

During January 2008, the Municipality issued a special obligation note (SON-A) for \$36.1 million. The SON-A is payable in annual installments through July 2014 ranging from \$5.1 to \$7.0 million and will bear interest at 90-day LIBOR plus 1.25 percent with a minimum of 5% and maximum of 12% (1.72% at June 30, 2012). The proceeds of the SON-A were used principally to infrastructure capital outlays. The outstanding balance as of June 30, 2012 approximates \$13.6 million. The SON-A will be repaid through sales tax revenues pledge and account for in the Municipality Redemption Fund.

During January 2008, the Municipality issued a special obligation note (SON-B) for \$37.1 million. The SON-B is payable in annual installments through July 2032 ranging from \$.06 to \$3.1 million and will bear interest at 90-day LIBOR plus 1.25 percent with a minimum of 5% and maximum of 12% (1.72% at June 30, 2012). 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, 2012 approximates \$34.2 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 \$54.0 million and are payable in annual installments ranging from \$2.7 to \$6.3 million, mature at various dates through July 2022 and bear interest at 0.2% over 90-day LIBOR (0.67% at June 30, 2012). 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 (4.75% at June 30, 2012). The outstanding balance as of June 30, 2012 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
2013	\$ 15,811,355	\$ 11,221,320
2014	16,725,174	11,639,123
2015	33,467,993	9,836,231
2016	8,561,330	8,625,964
2017	9,068,452	8,144,362
2018-2022	54,131,359	32,241,880
2023-2027	42,893,511	17,492,391
2028-2032	33,306,472	5,581,977
Total	<u>\$ 213,965,646</u>	<u>\$ 104,783,248</u>

G. Compensated Absences

The government-wide statement of net position includes approximately \$20.6 million, \$21.0 million and \$12.7 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
2013	\$ 3,928,188
2014	3,928,188
2015	3,928,188
2016	654,677
Total	<u>\$ 12,439,241</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 18 years. The balance of postclosure costs of \$16.2 million is reported in the statement of net position. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations.

J. Other Liabilities

Other liabilities represent \$9.5 million in connection to balances owned from disputed allocation and liquidation of property taxes and \$3.8 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, 2012, 2011 and 2010, 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 \$13.7 million, \$13.8 million and \$14.3 million for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

Historically, the 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, 2012, are as follows:

	Amount
Annual required contribution and pension cost	\$ 13,686,968
Employer contributions made	<u>(13,686,968)</u>
Net change in net pension liability	-
Pension-related debt, beginning of year	-
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 position and statement of activities, respectively. Under the modified accrual basis of accounting, the expenditure will be recognized, in the fund statements, when the liability is expected to be liquidated with expendable available financial resources.

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

Year ending June 30,	Annual Pension Cost	Percentage Required Contribution	Actual Pension Contribution	Pension- Related Debt
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>\$ 117,908,562</u>	<u>\$ -</u>

The Municipality has made its required contribution to the Program for the year ended June 30, 2012.

15. **Fund Balance (Deficit)**

As of June 30 2012, fund balance (deficit) is comprised of the following:

Fund balances (deficit):	2011			Other	Total
	General Fund	Debt Service Fund	Bond issue Funds	Governmental Funds	
Nonspendable:					
Inventories	\$ 6,110,479	\$ -	\$ -	\$ 24,394	\$ 6,134,873
Other assets	14,443,310	-	-	-	14,443,310
Loans receivable	-	-	-	10,393,167	10,393,167
Restricted for:					
Labor	-	-	-	5,805	5,805
Urban development	-	-	-	1,905,712	1,905,712
Economic development	2,645,082	-	-	10,614,862	13,259,944
Debt service	-	66,049,161	-	-	66,049,161
Capital projects	-	-	-	7,441,314	7,441,314
Committed:					
Capital projects	-	-	88,966,786	21,982,181	110,948,967
Unassigned	<u>(68,654,442)</u>	<u>-</u>	<u>-</u>	<u>(11,274,652)</u>	<u>(79,929,094)</u>
Total fund balances (deficit)	<u>\$ (45,455,571)</u>	<u>\$ 66,049,161</u>	<u>\$ 88,966,786</u>	<u>\$ 41,092,783</u>	<u>\$ 150,653,159</u>

16. **Net Position and Prior-Period Adjustment**

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

	Governmental Activities	Business-Type Activities	Total
Capital assets, net of accumulated depreciation	\$ 668,629,929	\$ 53,706,345	\$ 722,336,274
Outstanding balance on capital related debt	(552,914,760)	(55,071,940)	(607,986,700)
Unexpended capital debt proceeds	140,070,892	-	140,070,892
Reclassification to unrestricted net position	-	1,365,595	1,365,595
Total invested in capital assets, net of related debt	<u>\$ 255,786,061</u>	<u>\$ -</u>	<u>\$ 255,786,061</u>

On July 1, 2011, the Municipality adopted the provisions of GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities (GASB No. 65)*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Pursuant to the provisions of GASB No. 65, debt issuance costs recorded in the accompanying statement of net position, include all costs incurred in the issuance of bonds, including but not limited to insurance costs, financing costs and other related costs. Debt issuance costs have been recognized as expense as incurred in the accompanying statement of activities.

On July 1, 2011, the Municipality recorded a prior-period adjustment in the accompanying statement of net position to recognize, as a restatement of beginning net position, the cumulative effect of applying the provisions of GASB No. 65 to its debt issuance costs with a carrying value of \$2.1 million at July 1, 2011, which

were reported as assets in the previously issued basic financial statements. The restated net position at beginning of period composed of the following:

	Governmental Activities	Business Type Activities	Total
Net position at beginning of period, as previously reported	\$ 10,202,032	\$ (201,598)	\$ 10,000,434
Deduct: Deferred charges, net recorded as prior-period adjustment	2,108,522	-	2,108,522
Net position at beginning of period, as restated	<u>\$ 8,093,510</u>	<u>\$ (201,598)</u>	<u>\$ 7,891,912</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, 2012, amounted to approximately \$9.4 million and \$0.7 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, 2012 of approximately \$118.3 million for the construction, improvements, or renovation of several capital facilities and the capital assets.

C. Other commitments

At June 30, 2012, the general fund had commitments of approximately \$14.6 million for executory purchases orders or contracts that will be honored during the subsequent year. In addition, the nonmajor health and human service funds and miscellaneous special revenues funds had a deficit of \$3.7 million and \$4.2 million, respectively which will be covered with future budgetary appropriations of the general fund, if necessary.

19. Contingencies

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 \$30.0 million at June 30, 2012, 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:

	2012	2011
Balance as of July 1	\$ 6,100,000	\$ 6,100,000
Add: Provision for claims and judgments	25,530,892	699,432
Less: Payments of claims and judgments	<u>(1,630,892)</u>	<u>(699,432)</u>
Balance as of June 30	<u>\$ 30,000,000</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.

20. Subsequent Events

On August 6, 2012 the Municipality's Legislature approved a restricted self insured fund to pay for the cost of general commercial liabilities claims as a result of a cause, which is not covered by any other commercial insurance. The annual required contribution for the fund is actuarially determined and payable in monthly installments from unrestricted property tax revenues.

During August 2012, the Municipality issued a general obligation bond of \$18.7 million for the acquisition of various capital assets. The bond will be due in annual installment through 2019, and will bear interest at 1.25 percentage points over the 90-day London Interbank-Offered Rate (LIBOR).

On October 9, 2012, the Municipality's Legislature approved the issuance of revenue anticipation notes amounting to \$37.5 million to cover the payment of various operating expenses charged to the general fund's budget for the fiscal year ending June 30, 2013. These notes are payable with financial resources arising from municipal license tax and sales taxes collections to be made during the fiscal year 2012-2013. The notes shall accrue interests at a rate per annum equal to 3.0 percentage points over the 90-day London Interbank-Offered Rate (LIBOR).

Subsequent events were evaluated by management through December 14, 2012 which is the same date of the financial statements were available to be issued.

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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, 2012

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note 1)	Final Budget - Positive (Negative)
REVENUES:				
Property taxes	\$ 152,382,249	\$ 152,382,249	\$ 160,185,580	\$ 7,803,331
Municipal license tax	146,200,000	148,000,000	125,997,975	(22,002,025)
Sales tax	51,000,000	51,000,000	48,370,855	(2,629,145)
Construction excise and other local taxes	21,000,000	22,200,000	18,858,440	(3,341,560)
Licenses, permits and other local taxes	2,027,000	2,027,000	2,744,381	717,381
Charges for services	59,557,940	59,557,940	39,917,501	(19,640,439)
Fines and forfeitures	5,690,000	5,690,000	3,853,475	(1,836,525)
Interest	6,500,000	6,500,000	3,184,336	(3,315,664)
Intergovernmental – local	38,417,858	38,417,858	40,265,139	1,847,281
Other	14,024,953	14,024,953	39,047,787	25,022,834
Total revenues	<u>496,800,000</u>	<u>499,800,000</u>	<u>482,425,469</u>	<u>(17,374,531)</u>
EXPENDITURES:				
Current:				
General government	128,384,000	128,615,666	135,501,007	(6,885,341)
Public safety	61,111,613	60,790,101	60,546,487	243,614
Public works	69,500,387	71,233,309	75,871,045	(4,637,736)
Culture and recreation	14,469,000	15,374,132	15,680,616	(306,484)
Health and welfare	200,862,000	201,276,867	197,785,456	3,491,411
Urban development	4,791,000	4,853,051	4,756,739	96,312
Economic development	10,925,000	11,061,636	8,018,197	3,043,439
Education	6,757,000	6,595,238	10,767,021	(4,171,783)
Total expenditures	<u>496,800,000</u>	<u>499,800,000</u>	<u>508,926,568</u>	<u>(9,126,568)</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (26,501,099)</u>	<u>\$ (26,501,099)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 482,425,469
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				(25,725,000)
Transfer from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				(13,648,789)
Special general fund revenue				3,892,816
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 446,944,496</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 508,926,568
Differences - budget to USGAAP:				
Prior year encumbrances recorded as current year expenditures for USGAAP				19,692,347
Transfer to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes				(2,176,959)
Special general fund expenditure				1,612,565
Current year encumbrances recorded as expenditures for budgetary purposes				(14,641,231)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 513,413,290</u>

The accompanying notes to budgetary 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, 2012 representing the original budget. There was one supplemental appropriation for the year ended June 30, 2012.

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