

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

**MUNICIPIO DE SAN JUAN
AUDITORÍA 2012-2013
30 DE JUNIO DE 2013**

Municipality of San Juan
(Commonwealth of Puerto Rico)

*Basic Financial Statements and Single Audit of
Federal Financial Assistance For the Fiscal
Year Ended June 30, 2013 and Independent
Auditors' Report Thereon*

Municipality of San Juan
(Commonwealth of Puerto Rico)
Basic Financial Statements and Single Audit of Federal Financial Assistance
for the Fiscal Year Ended June 30, 2013 and Independent Auditors' Report Thereon

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(Commonwealth of Puerto Rico)

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PARISSI P.S.C.

Certified Public Accountants, Tax & Business Advisors

Independent Auditors' Report

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

Report on the Financial Statements

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 Municipality of San Juan, Capital City of Puerto Rico (the Municipality) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 of San Juan as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 15 and 77 through 78 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 Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The accompanying financial data schedules of the Municipality are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development (HUD) and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion,

the financial data schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2013 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Municipality's internal control over financial reporting and compliance.

Parissi, P.S.C.

April 24, 2014
Stamp No.E88596 was affixed
to the original of this report
License No. 88 Exp. December 1, 2014.



Municipality of San Juan
(Commonwealth of Puerto Rico)
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2013



The Management of the Municipality of San Juan (the Municipality) provides the Municipality's comprehensive annual financial report and the discussion and analysis of the Municipality's financial performance during the fiscal year ended June 30, 2013.

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 government wide net position deficiency decreased by \$7.6 million at June 30, 2013, and amounted to \$51.4 million – excess liabilities over assets.
- Governmental funds total revenues decreased approximately \$37.4 million (or 5.4 %) while total expenditures decreased approximately \$43.9 million (or 5.6%).
- The General Fund reflected a decrease in the accumulated deficit of \$115.3 million.
- On a budgetary basis, the General Fund's actual revenues were approximately \$103.9 million more than actual expenditures.
- The Municipality issued bonds and notes amounting to approximately \$183.7 million to finance administrative and operating costs and for the acquisition of other capital assets.
- The total net position of the proprietary fund decreased by \$0.7 million and amounted to \$1.2 million - excess liabilities over assets.

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

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are funded by the government's general tax and other revenue sources. This is intended to summarize and simplify the users' analysis of cost of various governmental services.

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

Fund Financial Statements

The fund financial statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has two categories of funds.

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

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

Proprietary funds – 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 funds financial statements.

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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 (in thousands):

	Governmental activities		Business type activities		Total	
	2013	2012, as restated	2013	2012	2013	2012, as restated
ASSETS						
Capital assets	\$ 662,252	\$ 661,291	\$ 52,724	\$ 53,706	\$ 714,976	\$ 714,997
Other assets	546,356	428,119	1,813	2,344	548,169	430,463
Total assets	1,208,608	1,089,410	54,537	56,050	1,263,145	1,145,460
LIABILITIES						
Current liabilities	248,351	194,238	1,729	1,413	250,080	195,651
Noncurrent liabilities	916,774	842,738	53,982	55,072	970,756	897,810
Total liabilities	1,165,125	1,036,976	55,711	56,485	1,220,836	1,093,461
DEFERRED INFLOWS OF RESOURCES	93,688	101,813	-	-	93,688	101,813
NET POSITION						
Invested in capital assets, net of related debt	385,430	248,447	(1,828)	-	383,602	248,447
Restricted for:						
Debt service	78,670	66,049	-	-	78,670	66,049
Other purposes	20,333	18,742	-	-	20,333	18,742
Unrestricted	(534,637)	(382,617)	653	(435)	(533,984)	(383,052)
Total net position	\$ (50,204)	\$ (49,379)	\$ (1,175)	\$ (435)	\$ (51,379)	\$ (49,814)

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The Municipality's total assets amounted to \$1,263 million at June 30, 2013, an increase of \$173.7 million when compared with the prior year. The increase in other assets of \$117.7 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 \$1,220 million at June 30, 2013, an increase of \$126.6 million when compared with the prior year. The increase is mainly due to the issuance of general obligation bonds, revenue bond, notes payable and additions to claims and judgments, compensated absences and other long-term liabilities, net of the principal payments and deductions of long-term liabilities.

The Municipality's deferred inflows of resources amounted to \$94.5 million at June 30, 2013, a decrease of \$7.3 million when compared with prior year. The decrease is mainly due to the decrease of \$7.0 million in unearned intergovernmental grants and contributions.

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, infrastructure, 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.

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Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2013

Changes in Net Position

The condensed changes in net position information are presented below (in thousands):

	Governmental activities		Business-type activities		Totals	
	2013	2012, as restated	2013	2012	2013	2012, as restated
Program revenues:						
Charges for services	\$ 52,580	\$ 48,835	\$ 2,180	\$ 3,057	\$ 54,760	\$ 51,892
Operating grants and contributions	130,184	131,650	-	-	130,184	131,650
Capital grants and contributions	5,051	3,595	-	-	5,051	3,595
General revenues:						
Property taxes	234,475	260,216	-	-	234,475	260,216
Municipal license taxes	118,402	125,998	-	-	118,402	125,998
Sales and usages taxes	59,633	56,876	-	-	59,633	56,876
Construction excise taxes	14,870	18,858	-	-	14,870	18,858
Intergovernmental grants and contributions, not restricted to specific programs	38,465	40,265	-	-	38,465	40,265
Interests on deposit	7,422	3,871	-	-	7,422	3,871
Miscellaneous revenues	5,883	5,251	1,968	-	7,851	5,251
Total revenues	666,965	695,415	4,148	3,057	671,113	698,472
Expenses:						
General government	108,723	151,099	-	-	108,723	151,099
Public safety	63,405	76,462	-	-	63,405	76,462
Public works	81,715	80,339	-	-	81,715	80,339
Culture and recreation	23,910	26,167	-	-	23,910	26,167
Health and welfare	247,561	252,340	-	-	247,561	252,340
Urban development	52,388	50,644	-	-	52,388	50,644
Economic development	24,760	21,761	-	-	24,760	21,761
Education	19,589	20,233	-	-	19,589	20,233
Interests on long-term debt	36,572	28,313	-	-	36,572	28,313
International Center	-	-	4,886	3,290	4,886	3,290
Total expenses	658,623	707,358	4,886	3,290	663,509	710,648
Net increase (decrease) in net position	8,342	(11,943)	(740)	(233)	7,604	(12,176)
Net position at beginning of year, as restated	(58,546)	(37,436)	(435)	(202)	(58,981)	(37,638)
Net position at end of year	\$ (50,204)	\$ (49,379)	\$ (1,175)	\$ (435)	\$ (51,377)	\$ (49,814)

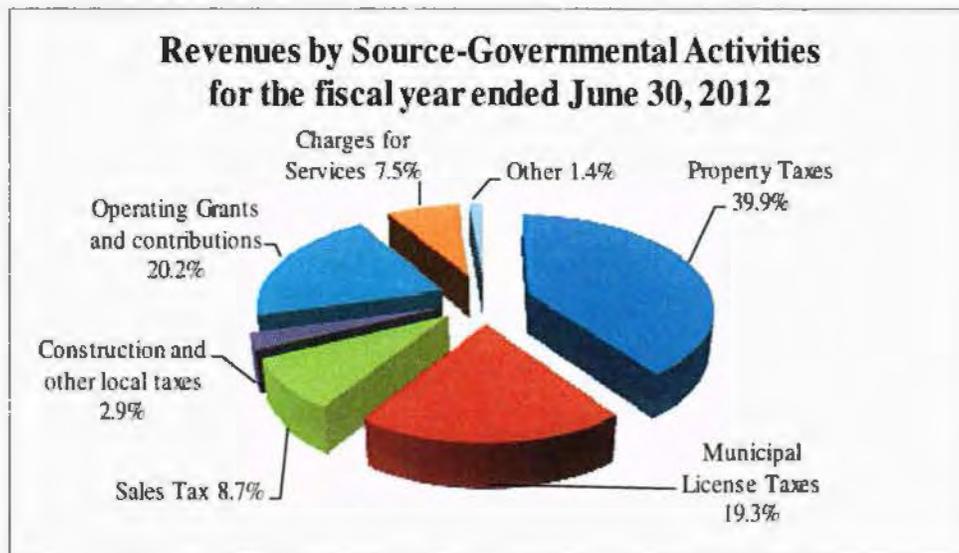
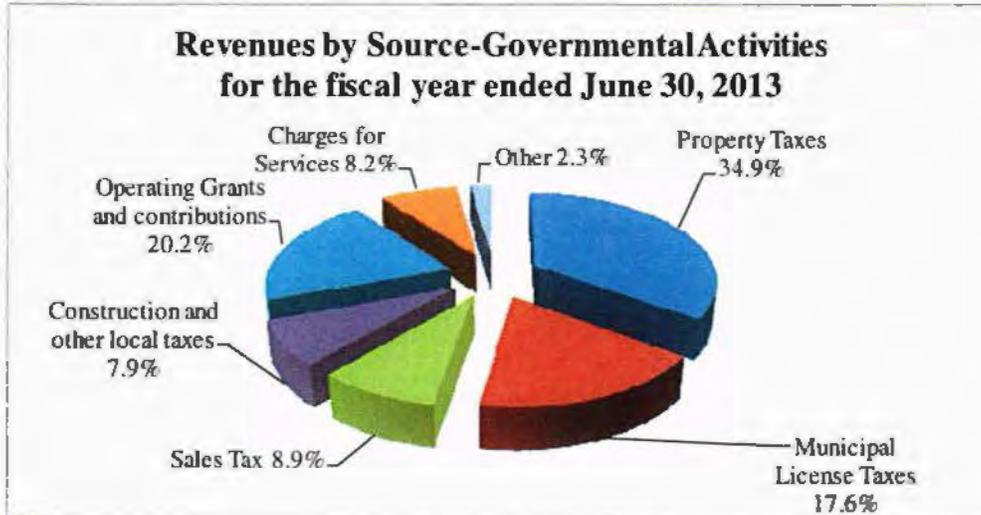
The Municipality's total revenues decreased by approximately \$27.4 million. Approximately, 63.7% (66.1% in 2012) of the Municipality's total revenue came from taxes, while approximately 25.9% (25.1% in 2012) resulted from grants and contributions, including federal aid. Charges for services provided approximately 8.2% (7.4% in 2012) of the total revenues.

Revenues from taxes decreased by approximately \$34.6 million. Revenues from construction and other local taxes decreased by \$4.0 million due to the decrease in construction projects mainly financed by the private sector.

Charges for services increased by approximately 5.5% when compared with the prior fiscal year mainly due to an increase in health care service revenues from the public health plan.

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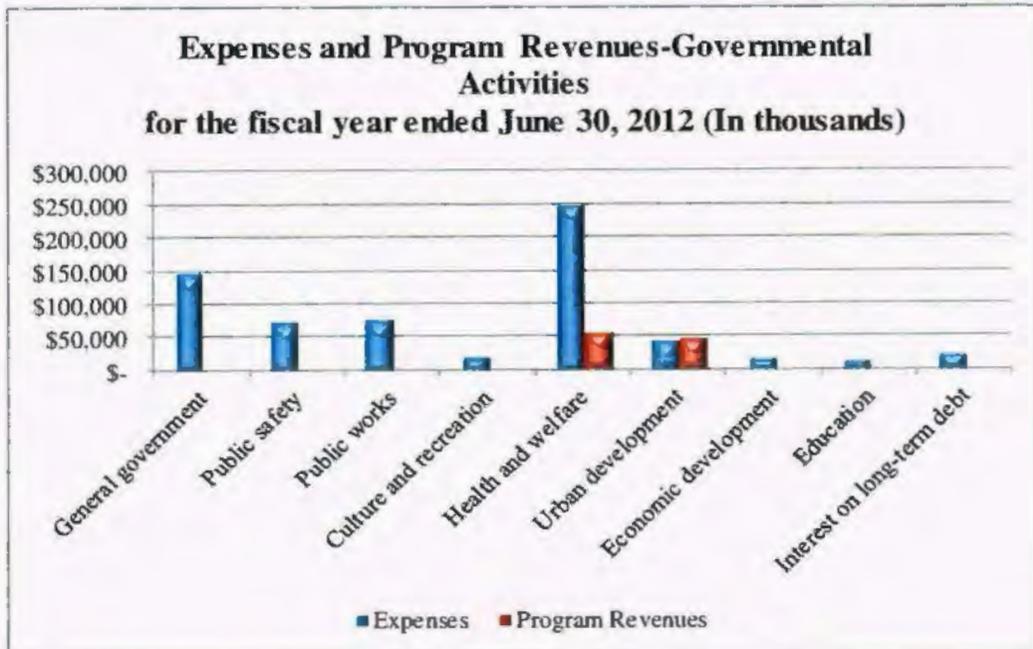
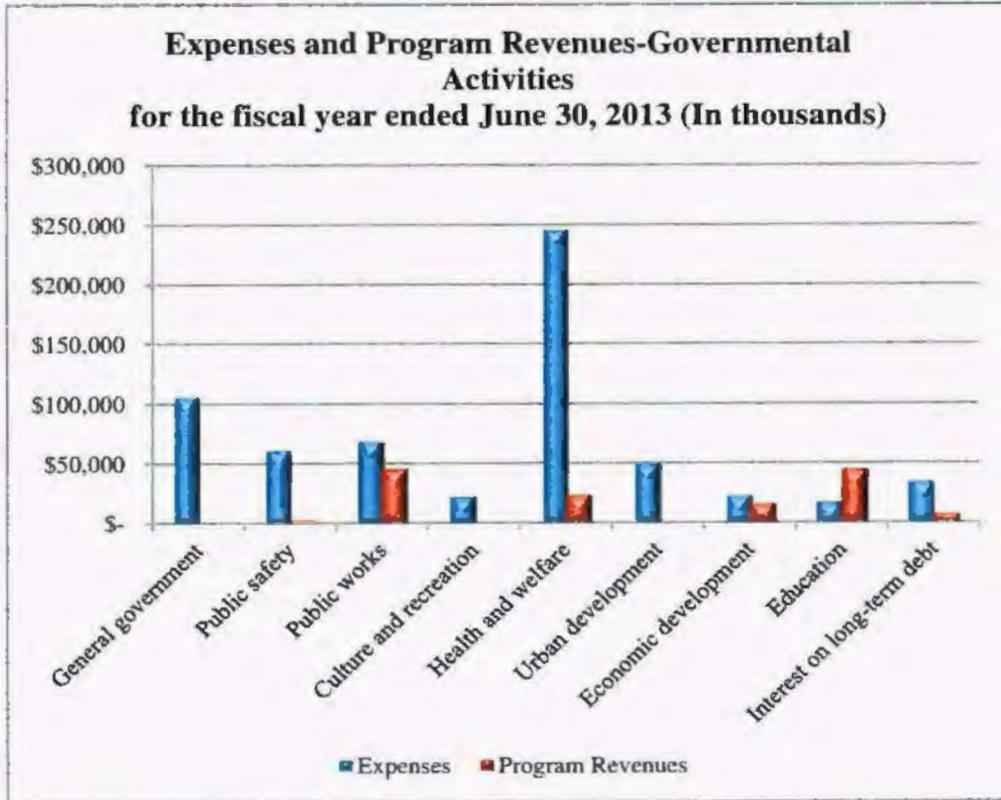
The following charts summarize the Municipality's revenues by sources for the governmental activities for the fiscal years ended June 30, 2013 and 2012.



The Municipality's total expenses amounted to \$663.5 million and \$710.6 million for the fiscal years ended June 30, 2013 and 2012, respectively. Decrease in total expenses was mainly due to decreases 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, 2013 and 2012.

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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 \$197.4 million, a net increase of \$106 million in comparison with the prior year. The combined fund balances include non-spendable fund balances amounting to \$14.1 million at June 30, 2013. This is the portion of fund balances that cannot be spent readily with cash or is legally or contractually required not to be spent in the other governmental funds or they are not expected to be converted in cash soon enough to affect the current period. There are restricted fund balances amounting to \$291 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 (\$124.6 million); 2) to pay for capital projects (\$102.7 million; and 3) to pay for debt services (\$63.7 million). There are assigned fund balances amounting to \$32.1 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 non-spendable, restricted and assigned fund balances over total fund balances, a negative unassigned fund balance of \$139.8 million was reported in the governmental funds at June 30, 2013.

Governmental funds include the General Fund, which is the main operating fund of the Municipality. As of June 30, 2013 and 2012, the general fund has an accumulated de fund balance and deficit of \$10.7 million and \$104.6 million, respectively. Key factors in the decrease of General Fund's deficit are as follows:

- Decrease of \$42.6 million in total expenditures.
- Other financing sources of \$165 million
- Net operating transfer of \$0.7 million

Decrease of \$37.4 million in total revenues was mainly due to the decrease of \$25.5 million \$7.6 and \$4 million in property taxes, municipal license taxes and construction taxes, 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 property taxes is attributed to the general contraction of the economy. The decrease of \$4 million in construction excise taxes was mainly due to the decrease of investors available to start new construction projects as a result of current recession.

The decrease of \$43.9 million in expenditures was mainly due to decreases in general government expenditures.

Other financing sources amounting to \$165 million result from the proceeds of long-term debt issued. The net operating transfers of \$0.7 million represents a transfer of \$84,863 from the Debt Service Fund to the

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General Fund by Act No. 64 of July 3, 1996, as amended, which allows municipalities that have interest earned over funds to repay general obligations bonds to transfer such interest income to the General Fund for operating purposes, and transfers of \$5 million from Capital Project Fund to General Fund as a reimbursement for certain expenses incurred by General Fund on behalf of this fund, net from transfers out amounted to approximately \$2.4 million to federal programs and capital improvement bond fund to cover certain expenditures.

Governmental funds also include the Debt Service Fund. The fund balance of the Debt Service Fund as of June 30, 2013 and 2012 amounted to \$63.7 million and \$45.0 million, respectively. The increase of \$18.7 million in the fund balance of the Debt Service Fund is the result of revenues from the special ad valorem tax and sale and usage taxes restricted for debt service and accounted for in the Debt Service Fund of \$97.2 million net of payment of principal and interest of \$78.5 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, 2013, the total assets of the proprietary fund amounted to \$54.5 million of which \$52.7 million represents capital assets, net of accumulated depreciation, while \$1.8 million represents cash in commercial banks. The total liabilities at year-end amounted to \$55.7 million, consisting principally of revenue bonds payable of \$54.5 million and interest payable of \$1.2 million.

During the current year, rental service charges amount to \$2.2 million, while the operating expenses of the fund amounted to \$2.6 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Municipality approved an original budget for the General Fund of \$498.8 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, 2013 were \$588.2 million while actual expenditures were \$488.8 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

The Municipality's investment in capital assets as of June 30, 2013 and 2012 amounted to approximately \$715 million and \$722.3 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.

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	Governmental		Business-type		Totals (in thousands)	
	activities (in thousands)		activities (in thousands)		2012,	
	2013	2012, as restated	2013	2012, as restated	2013	as restated
Land and improvements	\$ 123,271	\$ 120,426	\$ 18,600	\$ 18,600	\$ 141,871	\$ 139,026
Works of art and historical treasures	2,224	2,224	-	-	2,224	2,224
Buildings and building improvements	236,753	249,788	34,124	35,034	270,877	284,822
Site improvements	62,353	65,011	-	-	62,353	65,011
Infrastructure	189,049	176,971	-	-	189,049	176,971
Equipment and vehicles	19,727	15,861	-	-	19,727	15,861
Construction in progress	28,875	38,390	-	-	28,875	38,390
Total	\$ 662,252	\$ 668,671	\$ 52,724	\$ 53,634	\$ 714,976	\$ 722,305

The decrease in the Municipality's capital assets was 1% under last year. Actual expenditures to purchase or construct capital assets from the Municipality's governmental activities for the fiscal years ended June 30, 2013 and 2012 were \$51.1 million and \$55.8 million, respectively. Depreciation charges from the Municipality's governmental and business-type activities amounted to \$41.1 million and \$42.7 million for the fiscal years ended June 30, 2013 and 2012, 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, 2013 and 2012, the Municipality has approximately \$114.3 million and \$100.7 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 6 to the financial statements.

Debt Administration:

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

Based on the current total net assessed valuation of real and personal property in San Juan provided by the Government Development Bank for Puerto Rico (GDB) of approximately \$29.3 billion, the legal debt limit margin of the Municipality as of June 30, 2013, was \$2.9 billion. The Municipality's available legal debt margin as of June 30, 2013, was calculated by GDB to equal \$2.3 billion after subtracting from the legal margin the amount of \$880.6 million in outstanding general obligation debt as of June 30, 2013, and adding to the legal margin the amount in its Redemption Fund of \$35.5 million as of June 30, 2013.

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." Law 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

Municipality of San Juan
(Commonwealth of Puerto Rico)
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2013

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 2013, the Municipality issued bonds and notes amounting to \$183.7 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, in thousands:

	Governmental activities		Business-type activities		Totals	
	2012,		2013	2012	2013	2012,
	2013	as restated				
Bonds payable	\$ 479,437	\$ 520,533	\$ -	\$ -	\$ 479,437	\$ 520,533
Notes payable	401,170	233,386	-	-	401,170	233,386
Revenue bonds	-	-	54,552	55,072	54,552	55,072
Mortgage payable	3,062	3,465	-	-	3,062	3,465
Total	\$ 883,669	\$ 757,384	\$ 54,552	\$ 55,072	\$ 938,221	\$ 812,456

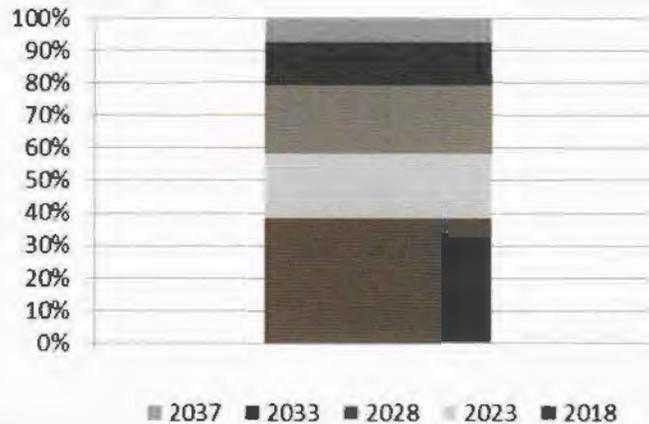
At June 30, 2013, the Municipality had \$479.4 million of general obligation bonds outstanding. The following chart indicates the principal amortization of the Municipality's general obligation bonds in five-year increments.

General Obligation Bonds
Principal Amortization
In Five Years Increments Following Fiscal Year 2013
(In thousands)

Fiscal Years	Principal Amortization
2014-2018	\$ 184,145
2019-2023	96,176
2024-2028	97,992
2029-2033	64,989
2034-2037	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 fifth teen (15) years.

GOB Principal Amortization



The Municipality has various outstanding notes payable amounting to \$401.2 million at June 30, 2013. 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. During the fiscal year ended June 30, 2013, notes payable were issued.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable. On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 7, known as the Fiscal Emergency Act, for the purpose of stabilizing the financial condition of the central government by requiring the implementation of a cost reduction program, including payroll cost. The broad effect of the implementation of these measures cannot be presently determined at June 30, 2013. These factors were considered when preparing the Municipality's budget for the 2013-2014 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.sanjuanciudadpatria.com.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Statement of Net Position
June 30, 2013

	Governmental activities	Business- type activities	Total
ASSETS			
Cash and cash equivalents in commercial banks	\$ 83,358,508	\$ -	\$ 83,358,508
Restricted assets:			
Cash	123,092,057	1,812,520	124,904,577
Cash with fiscal agent	256,003,047	-	256,003,047
Receivables:			
Property taxes	41,413,398	-	41,413,398
Municipal license taxes	7,095,169	-	7,095,169
Sales and usage taxes	8,104,618	-	8,104,618
Construction excise taxes	1,972,797	-	1,972,797
Intergovernmental grants and contributions	10,436,883	-	10,436,883
Miscellaneous receivables	8,394,850	-	8,394,850
Loans receivable, net	4,946,936	-	4,946,936
Other unrestricted assets	1,537,307	-	1,537,307
Capital assets not being depreciated	154,370,450	18,600,000	172,970,450
Capital assets being depreciated, net	507,881,912	34,124,405	542,006,317
Total assets	<u>1,208,607,932</u>	<u>54,536,925</u>	<u>1,263,144,857</u>
LIABILITIES			
Accounts payable and accrued liabilities	125,108,984	-	125,108,984
Interest in bonds and notes	16,293,767	1,159,229	17,452,996
Intergovernmental payables	31,093,613	-	31,093,613
Tax revenue anticipation notes payable	4,379,144	-	4,379,144
Noncurrent liabilities:			
Due within one year	71,474,937	570,000	72,044,937
Due in more than one year	916,774,026	53,981,940	970,755,966
Total liabilities	<u>1,165,124,471</u>	<u>55,711,169</u>	<u>1,220,835,640</u>
DEFERRED INFLOWS OF RESOURCES			
Municipal license taxes	93,687,764	-	93,687,764
Total deferred inflows of resources	<u>93,687,764</u>	<u>-</u>	<u>93,687,764</u>
NET POSITION			
Net investment in capital assets	385,429,545	(1,827,535)	383,602,010
Restricted for:			
Debt service	78,669,849	-	78,669,849
Other purposes	20,333,464	-	20,333,464
Unrestricted	(534,637,161)	653,291	(533,983,870)
Total net position	<u>\$ (50,204,303)</u>	<u>\$ (1,174,244)</u>	<u>\$ (51,378,547)</u>

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Statement of Activities
Fiscal Year Ended June 30, 2013

Functions/Programs	Program revenues				Net expense and change in net position		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
<i>Governmental activities:</i>							
General government	\$ 108,722,883	\$ 6,519,557	\$ 709,170	\$ -	\$ (101,494,156)	\$ -	\$ (101,494,156)
Public safety	63,404,941	356,927	3,150,752	-	(59,897,262)	-	(59,897,262)
Public works	81,714,664	19,886	45,602,184	-	(36,092,594)	-	(36,092,594)
Culture and recreation	23,910,472	2,599,169	-	-	(21,311,303)	-	(21,311,303)
Health and welfare	247,560,973	32,468,300	23,520,829	-	(191,571,844)	-	(191,571,844)
Urban development	52,387,815	2,092,641	1,477,592	-	(48,817,582)	-	(48,817,582)
Economic development	24,760,145	4,511,108	16,157,611	-	(4,091,426)	-	(4,091,426)
Education	19,588,591	4,012,482	39,566,007	5,051,090	29,040,988	-	29,040,988
Interests on long-term debt	36,571,971	-	-	-	(36,571,971)	-	(36,571,971)
Total governmental activities	658,622,455	52,580,070	130,184,145	5,051,090	(470,807,150)	-	(470,807,150)
<i>Business-type activities:</i>							
International Center	4,886,904	2,180,050	-	-	-	(2,706,854)	(2,706,854)
Total	\$ 663,509,359	\$ 54,760,120	\$ 130,184,145	\$ 5,051,090	\$ (470,807,150)	\$ (2,706,854)	\$ (473,514,004)
<i>General revenues:</i>							
Property taxes					234,474,853	-	234,474,853
Municipal license taxes					118,401,995	-	118,401,995
Sales and usages taxes					59,632,930	-	59,632,930
Construction excise taxes					14,869,365	-	14,869,365
Intergovernmental grants and contributions, not restricted to specific programs					38,465,337	-	38,465,337
Interests on deposits					7,421,456	-	7,421,456
Miscellaneous revenues					7,850,991	-	7,850,991
Internal transfers					(1,967,493)	1,967,493	-
Total general revenues					479,149,434	1,967,493	481,116,927
Net change in net position					8,342,284	(739,361)	7,602,923
Net position at beginning of fiscal year, as restated					(58,546,587)	(434,883)	(58,981,470)
Net position at end of fiscal year					\$ (50,204,303)	\$ (1,174,244)	\$ (51,378,547)

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Balance Sheet - Governmental Funds
June 30, 2013

	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	Total
ASSETS					
Cash and cash equivalent	\$ 83,358,508	\$ -	\$ -	\$ -	\$ 83,358,508
Accounts receivables:					
Property taxes	25,458,730	15,954,668	-	-	41,413,398
Municipal license taxes	7,095,169	-	-	-	7,095,169
Sales and usage taxes	7,242,773	861,845	-	-	8,104,618
Construction excise taxes	1,972,797	-	-	-	1,972,797
Intergovernmental grants and contributions	1,580,692	-	-	8,856,191	10,436,883
Due from other governmental funds	21,583,118	-	4,762,876	3,423,284	29,769,278
Miscellaneous receivables	8,065,113	-	-	329,737	8,394,850
Loans receivable, net allowance for loan losses	-	-	-	4,946,936	4,946,936
Other unrestricted assets	1,096,559	-	-	440,748	1,537,307
Restricted assets:					
Cash in commercial banks	95,760,306	-	3,271,012	24,060,739	123,092,057
Cash with fiscal agent	5,078,786	127,426,622	111,024,987	12,472,652	256,003,047
Total assets	<u>\$ 258,292,551</u>	<u>\$ 144,243,135</u>	<u>\$ 119,058,875</u>	<u>\$ 54,530,287</u>	<u>\$ 576,124,848</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 99,264,320	\$ -	\$ 2,268,461	\$ 6,432,507	\$ 107,965,288
Intergovernmental payables	19,093,613	-	-	12,000,000	31,093,613
Due to other governmental funds	-	-	14,126,294	15,642,984	29,769,278
Tax revenue anticipation notes	4,379,144	-	-	-	4,379,144
Manures bonds due and payable	-	42,846,000	-	-	42,846,000
Manured notes due and payable	-	9,570,000	-	-	9,570,000
Accrued interest payable	-	13,157,286	-	-	13,157,286
Total liabilities	<u>122,737,077</u>	<u>65,573,286</u>	<u>16,394,755</u>	<u>34,075,491</u>	<u>238,780,609</u>
DEFERRED INFLOWS OF RESOURCES					
Municipal license taxes	98,738,854	-	-	-	98,738,854
Property taxes	20,053,493	14,957,532	-	-	35,011,025
Sales and usage taxes	1,600,155	-	-	-	1,600,155
Construction excise taxes	1,229,199	-	-	-	1,229,199
Intergovernmental grants and contributions	1,580,691	-	-	-	1,580,691
Other	1,651,058	-	-	121,334	1,772,392
Total deferred inflows of resources	<u>124,853,450</u>	<u>14,957,532</u>	<u>-</u>	<u>121,334</u>	<u>139,932,316</u>
FUND BALANCES					
Nonspendable	14,126,294	-	-	-	14,126,294
Restricted	95,760,306	63,712,317	102,664,120	28,872,409	291,009,152
Assigned	32,084,460	-	-	-	32,084,460
Unassigned	(131,269,036)	-	-	(8,538,947)	(139,807,983)
Total fund balances	<u>10,702,024</u>	<u>63,712,317</u>	<u>102,664,120</u>	<u>20,333,462</u>	<u>197,411,923</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 258,292,551</u>	<u>\$ 144,243,135</u>	<u>\$ 119,058,875</u>	<u>\$ 54,530,287</u>	<u>\$ 576,124,848</u>

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Reconciliation of the Balance Sheet – Governmental Funds,
to the Statement of Net Position
Fiscal Year Ended June 30, 2013

Total fund balances (deficit) as reported in the balance sheet - governmental funds and the statement of net position. \$ 197,411,923

Capital assets used in governmental activities are not considered current available financial resources at the end of the fiscal year, therefore, are not reported as assets in the governmental funds financial statements. 662,252,362

The following unavailable revenue streams are considered revenues for government-wide reporting in the statement of activities while are reported as deferred inflows of resources in the governmental funds:

Property taxes	35,011,025
Municipal license taxes	5,051,090
Sales and usage taxes	1,600,155
Construction excise taxes	1,229,199
Medical revenue	1,772,392
Intergovernmental grants and contributions	1,580,691
Total	<u>46,244,552</u>

The following long-term liabilities, are not due and payable (mature) in the current fiscal year and, therefore, are not reported as liabilities in the governmental funds:

Accounts payable and accrued liabilities	(9,521,019)
Bonds payable	(436,591,000)
Mortgage payable	(3,061,681)
Notes payable	(391,600,329)
Compensated absences	(60,424,513)
Pension-related debt	(8,511,053)
Claims and judgments	(14,162,313)
Accrued interest payable	(3,136,481)
Self-insurance claim liability	(5,281,808)
Accrued employees' Christmas bonus	(7,622,677)
Estimated liability for municipal solid waste landfill postclosure care costs	(16,200,266)
Total	<u>(956,113,140)</u>

Total net position of governmental activities \$ (50,204,303)

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds
Fiscal Year Ended June 30, 2013

	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	Total
REVENUES:					
Property taxes	\$ 147,993,182	\$86,758,948	\$ -	\$ -	\$ 234,752,130
Municipal license taxes	118,401,995	-	-	-	118,401,995
Sales and usage taxes	47,546,046	10,486,729	-	-	58,032,775
Construction excise taxes	13,640,166	-	-	-	13,640,166
Charges for services	48,576,847	-	-	2,230,831	50,807,678
Interests on deposits	270,511	-	-	1,089,731	1,360,242
Intergovernmental grants and contributions:					
Federal	-	-	-	129,284,014	129,284,014
Local	37,509,558	-	719,000	419,169	38,647,727
Miscellaneous revenues	6,400,895	96,740	5,964,472	587,146	13,049,253
Total revenues	<u>420,339,200</u>	<u>97,342,417</u>	<u>6,683,472</u>	<u>133,610,891</u>	<u>657,975,980</u>
EXPENDITURES:					
Current:					
General government	92,855,013	-	-	12,595,260	105,450,273
Public safety	62,757,985	-	-	720,078	63,478,063
Public works	61,989,071	-	-	186,626	62,175,697
Culture and recreation	14,707,144	-	-	870,812	15,577,956
Health and welfare	192,132,214	-	-	49,009,319	241,141,533
Urban development	12,988,523	-	-	39,065,957	52,054,480
Economic development	11,638,236	-	-	7,362,401	19,000,637
Education	10,392,802	-	-	7,639,322	18,032,124
Capital outlays	1,402,893	-	50,035,461	10,449,787	61,888,141
Debt service:					
Principal	5,368,946	52,416,000	-	3,705,001	61,489,947
Interests	4,541,891	26,124,774	-	2,768,825	33,435,490
Total expenditures	<u>470,774,718</u>	<u>78,540,774</u>	<u>50,035,461</u>	<u>134,373,388</u>	<u>733,724,341</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(50,435,518)</u>	<u>18,801,643</u>	<u>(43,351,989)</u>	<u>(762,497)</u>	<u>(75,748,361)</u>
OTHER FINANCING SOURCES (USES):					
Transfers from other governmental funds	5,085,247	-	-	2,417,651	7,502,898
Transfers to other governmental funds	(2,417,651)	(84,863)	(5,000,384)	-	(7,502,898)
Transfers to proprietary fund	(1,967,493)	-	-	-	(1,967,493)
Proceeds from issuance of notes	165,000,000	-	18,730,000	-	183,730,000
Total other financing sources (uses), net	<u>165,700,103</u>	<u>(84,863)</u>	<u>13,729,616</u>	<u>2,417,651</u>	<u>181,762,507</u>
NET INCREASE (DECREASE) IN FUND BALANCES	<u>115,264,585</u>	<u>18,716,780</u>	<u>(29,622,373)</u>	<u>1,655,154</u>	<u>106,014,146</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(45,455,571)</u>	<u>66,049,160</u>	<u>115,011,271</u>	<u>15,048,299</u>	<u>150,653,159</u>
PRIOR-PERIOD ADJUSTMENTS AND RECLASSIFICATIONS	<u>(59,106,990)</u>	<u>(21,053,623)</u>	<u>17,275,222</u>	<u>3,630,009</u>	<u>(59,255,382)</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR, RESTATED	<u>(104,562,561)</u>	<u>44,995,537</u>	<u>132,286,493</u>	<u>18,678,308</u>	<u>91,397,777</u>
FUND BALANCES, AT END OF FISCAL YEAR	<u>\$ 10,702,024</u>	<u>\$ 63,712,317</u>	<u>\$ 102,664,120</u>	<u>\$ 20,333,462</u>	<u>\$ 197,411,923</u>

See notes to basic financial statements.

Ortiz
30/06/13

Municipality of San Juan
(Commonwealth of Puerto Rico)
Reconciliation of the Statements of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds
Fiscal Year Ended June 30, 2013

Net change in fund balances as reported in the statement of revenues, expenditures and changes in fund balances / (deficit) - governmental funds funds.	\$ 106,014,146
Amounts for governmental and business-type activities reported in the funds financial statements differ from the amounts reported in the statement of activities for the following reasons:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized allocated over their estimated useful lives through depreciation expense. The following is the excess of capital outlays over depreciation expense:	
Capital outlays expenditures - capitalizable assets	51,138,415
Depreciation expense	<u>(41,138,458)</u>
Total	9,999,957
Revaluation adjustment of capital assets of governmental activities is considered an expense for government-wide reporting in the statement of activities but not an expenditure in the governmental funds.	<u>(16,418,941)</u>
The proceeds from issuance of notes payable provide current available financial resources and, accordingly, are recorded as other financing sources in the governmental funds. However, such proceeds increase the outstanding balance of notes payable in the statement of net position.	<u>(183,730,000)</u>
The repayment 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 and notes payable	61,086,313
Mortgage payable	<u>403,634</u>
Total	<u>61,489,947</u>
The following is the net change in deferred inflows of resources of revenue streams that are reported as revenues for government-wide reporting in the statement of activities while are deferred in the governmental funds as considered unavailable under the modified accrual basis of accounting:	
Property taxes	(277,278)
Municipal license taxes	5,051,090
Sales and usage taxes	1,600,155
Construction excise taxes	1,229,199
Medical services receivables	1,772,392
Intergovernmental grants and contributions	<u>1,580,691</u>
Total	<u>10,956,249</u>
Some expenses reported in the statement of activities do not require the use of current available financial resources and, therefore, are not reported as expenditures in the governmental funds. Those expenses are related to the net change in the following assets and long-term obligations:	
Accounts payable and accrued liabilities	20,940,143
Accrued interest payable	(3,136,481)
Self-Insurance claim liability	(5,281,808)
Pension-related debt	3,928,188
Claims and judgments	<u>(1,328,218)</u>
Estimated liabilities for municipal solid waste landfill postclosure care cost	736,110
Compensated absences	<u>4,172,992</u>
Total	<u>20,030,926</u>
Net change in net position of governmental activities	<u>\$ 8,342,284</u>

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Statement of Net Position – Proprietary Fund
June 30, 2013

	<u>International Center</u>
ASSETS	
Current assets:	
Restricted cash	\$ 1,812,520
Total current assets	<u>1,812,520</u>
Noncurrent assets:	
Capital assets not being depreciated	18,600,000
Capital assets being depreciated, net	<u>34,124,405</u>
Total noncurrent assets	<u>52,724,405</u>
Total assets	<u>\$ 54,536,925</u>
LIABILITIES	
Current liabilities:	
Accrued interest payable on revenue bonds	\$ 1,159,229
Total current liabilities	<u>1,159,229</u>
Noncurrent liabilities:	
Due within one year	570,000
Due in more than one year	<u>53,981,940</u>
Total noncurrent liabilities	<u>54,551,940</u>
Total liabilities	<u>55,711,169</u>
NET POSITION	
Net investment in capital assets	\$ (1,827,535)
Unrestricted	<u>653,291</u>
Deficit	<u>\$ (1,174,244)</u>

See notes to basic financial statements.

Municipality of San Juan

(Commonwealth of Puerto Rico)

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund

Fiscal Year Ended June 30, 2013

	<u>International Center</u>
Operating revenues - rental income	\$ 2,180,050
Operating expenses:	
General, maintenance and administrative	1,658,447
Depreciation expense	<u>910,000</u>
Total operating expenses	<u>2,568,447</u>
Net operating loss	(388,397)
Nonoperating expenses	
Interest on revenue bonds	(2,318,457)
Transfer from general fund	<u>1,967,493</u>
Net decrease in unrestricted net position	(739,361)
Net position at beginning of year	<u>(434,883)</u>
Unrestricted net position at end of year	<u>\$ (1,174,244)</u>
See notes to basic financial statements.	

Municipality of San Juan
(Commonwealth of Puerto Rico)
Statement of Cash Flows - Proprietary Fund
Fiscal Year Ended June 30, 2013

	<u>International Center</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Collections from tenants	\$ 2,750,547
Payments to suppliers	(1,658,447)
Net cash provided by operating activities	<u>1,092,100</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Transfers and loans from general fund	<u>1,724,589</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES:	
Debt service on capital-related revenue bonds:	
Principal paid	(520,000)
Interest paid	(2,307,407)
Other capital and related financing collections	49,840
Net cash used in capital and related financing activities	<u>(2,777,567)</u>
NET INCREASE IN RESTRICTED CASH IN COMMERCIAL BANKS	39,122
RESTRICTED CASH IN COMMERCIAL BANKS, AT BEGINNING OF FISCAL YEAR	<u>1,773,398</u>
RESTRICTED CASH IN COMMERCIAL BANKS, AT END OF FISCAL YEAR	<u>\$ 1,812,520</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (388,397)
Adjustment to reconcile net operating income to net cash provided by operating activities:	
Depreciation expense	910,000
Net increase in rent receivable from tenants	<u>570,497</u>
Net cash provided by operating activities	<u>\$ 1,092,100</u>

See notes to basic financial statements.

1. GOVERNMENT AND FINANCIAL REPORTING ENTITY

a. *Government Background Information*

The Municipality of San Juan (the Municipality), founded in 1521, is the largest municipality and capital city of the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Law of the Commonwealth of Puerto Rico*, as amended (Law No. 81). The Municipality is governed by a Mayor and a seventeen-member Municipal Legislature whom are elected for a four-year term.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other general services to its citizens.

b. *Basis of Presentation and Financial Reporting Entity*

The accompanying basic financial statements present 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, 2013, the respective changes in financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2013, and the cash flows of the proprietary fund for the fiscal year ended June 30, 2013 in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

Accordingly, the accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance.

The Municipality's management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which 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 Municipality's basic financial statements to be misleading or incomplete.

The Municipality concluded that there are no legally separate entities or organizations that should be reported as component units of the Municipality as of and for the fiscal year ended June 30, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality's basic financial statements consist of: (1) the management's discussion and analysis (MD&A), a narrative that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities, (2) the government-wide financial statements, (3) the governmental and proprietary fund financial statements, (4) the notes to the

basic financial statements, and (5) the required supplemental budgetary comparison schedule of the general fund and the related notes to the budgetary comparison schedule.

a. Government-wide Financial Statements

The government-wide financial statements (GWFS) consist of the statement of net position and the statement of activities, which report information on all activities of the Municipality.

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net position provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets, liabilities and deferred inflows of resources, with the difference between these three items reported as net position. This statement assists management in assessing the level of services that can be provided by the Municipality in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

Net position is classified in the accompanying statement of net position within the following three categories:

- 1) **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowing that are attributed to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflow of resources that are attributable to the acquisition, construction and improvement of those assets is included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year end, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of this component of net position. Rather, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
- 2) **Restricted Net Position** – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restricted assets result when constraints placed on those assets use are either, externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

The Municipality has reported the following types of restricted net position in the accompanying statement of net position as of June 30, 2013:

- a. Debt service* – Represent net resources restricted by bond indentures, debt covenants or certain laws and regulations to cover the debt service payments of bonds and notes payable.
 - b. Other purposes* – Represent net resources externally restricted by grantors, contributors, creditors or certain laws and regulations to cover specific program purposes related to certain federal and state grants and contributions.
- 3) **Unrestricted Net Position** – Generally, this category consists of the excess of assets and deferred outflows of resources over related liabilities and deferred inflows of resources that are neither externally nor legally restricted, neither invested in capital assets. However, at June 30, 2013, this net position category has a negative balance of \$534.6 million because liabilities and deferred inflows of resources exceeded the related assets and deferred outflows of resources.

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.

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position changed during the fiscal year ended June 30, 2013. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues.

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: general government, public safety, public works, culture and recreation, health and welfare, urban development, economic development and education.

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in two broad categories: program revenues and general revenues.

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: the net cost of the function/program that must be financed from the Municipality's general revenues or the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities reports the following categories of program revenues for the fiscal year ended June 30, 2013:

- 1) **Charges for Services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided,

or are otherwise directly affected by the services. These revenues include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.

- 2) ***Program-Specific Operating and Capital Grants and Contributions*** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes, sales and use taxes, construction excise taxes, grants and contributions not restricted to specific programs, interest income and other miscellaneous income are reported as general revenues.

Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (assets, liabilities, revenues, expenditures and other financing sources/uses among governmental funds) have been eliminated from the accompanying statements of net position and activities. Residual balances outstanding between the governmental activities and business-type activities are reported in the GWFS as “internal balances”, when applicable.

b. Governmental Fund Financial Statements

The governmental fund financial statements (GFFS) (the balance sheet and the statement of revenues, expenditures and changes in fund balances/(deficit)) provides information about the financial position and changes in fund balances/(deficit) of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions.

The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality.

The focus of the GFFS is on major governmental funds, which are determined using a predefined percentage of assets, deferred outflows of resources, liabilities, deferred inflow of resources, revenues or expenditures of either the fund category or the governmental and proprietary funds combined. Accordingly, the Municipality presents its governmental funds between major and non-major categories. 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.

The Municipality reported the following major governmental funds:

- 1) **General Fund** – Is the Municipality's main operating fund and is used to account for and report all financial resources of governmental activities, except for those required to be accounted for in another governmental fund.
- 2) **Debt Service Fund** – The debt service fund is 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.
- 3) **Capital Improvements Bond Fund** – The capital improvement bond fund is used to account for the financial resources arising mainly from bonds and notes issuance proceeds used in the acquisition, construction or improvement of major capital assets. The most significant transactions of this fund are related to the proceeds on the issuance of bonds and capital outlays.

Nonmajor governmental funds are reported within a single column and include the following:

- 1) **Special Revenue Funds** – Are used to account for and report the proceeds of specific revenue sources 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.

- 2) **Capital Project Funds** – This fund is 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 assets, but excluding those outlays financed by general obligation bonds and notes proceeds and others financed by proprietary funds. 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 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 report fund balance amounts based on the extent to which the Municipality is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- 1) **Nonspendable** – Amounts that are not in a spendable form or contractually required to be maintained intact.
- 2) **Restricted** – Amounts that are legally restricted by outside parties, constitutional provisions, enabling legislation.
- 3) **Committed** – Amounts that are constrained for specific purposes that are internally 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.
- 4) **Assigned** – Amounts that are constrained by the Municipality 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 governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- 5) **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.

In situations when 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.

c. Proprietary Fund Financial Statements

The proprietary fund financial statements consist of the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows – proprietary fund. These statements present the financial position, results of operations and cash flows of the International Center fund, which accounts for the leasing operations and maintenance of a real estate property originally acquired through the issuance of revenue bonds.

d. Measurement Focus, Basis of Accounting and Financial Statement Presentation

- 1) **Government-wide Financial Statements** – The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from property tax, municipal license tax and sales and usage tax are recognized in the fiscal year for which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. Exchange-like transactions include license fees, fines, penalties, forfeitures, charges for services, rental of facilities, sales of real estate and capital assets, and other miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are accounted for pursuant to the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions* (GASB 33). These are derived tax revenues, imposed non-exchange revenues, government mandated non-exchange transactions, and voluntary non-exchange transactions.

Derived tax revenue result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange occurs.

Imposed non-exchange revenue transactions (such as property taxes, municipal license taxes, sales and use taxes and construction excise taxes), 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, municipal license, sales and use taxes, and construction excise taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as intergovernmental grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, 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. Revenue is, therefore, generally recognized as qualifying reimbursable expenditure is incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, 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.

Any revenue collected in advance that are restricted for use in the following fiscal year are recorded as deferred inflows of resources.

All general capital assets and unmatured long-term liabilities are recorded only in the government wide statement of net position. The measurement focus and the basis of accounting used in the accompanying Government-wide financial statements differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying governmental fund financial statements. Therefore, the Municipality presents reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between these statements.

- 2) **Governmental Fund Financial Statements** – The governmental fund financial statements use the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances / (deficit) – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, 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 deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within ninety (90) days after year end, except for property taxes for which the availability period is generally sixty (60) days.

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Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred inflows of resources at June 30, 2013.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales and use taxes, construction excise taxes and intergovernmental grants and contributions. These principal revenue sources meet both measurability and availability criteria in the accompanying governmental funds financial statements, except for amounts recorded as deferred inflows of resources.

In a manner similar to the government-wide financial statements, but subject to, and limited by, the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, fines and forfeitures, most charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB 33 for non-exchange transactions, but subject to, and limited by, the availability criteria discussed above. Accordingly, property tax and municipal license tax, sales and use tax and construction excise tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while their respective tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interests on deposits are recorded when earned as these revenues are considered both measurable and available at year end.

The Municipality generally accrues a governmental fund liability and expenditure in the period in which the Municipality 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.

Following are certain exceptions to the modified accrual basis of accounting:

- a. Principal and interest on bonds and notes payable are recorded as expenditures as of year-end when resources have been segregated for their payment when due. Amounts due on July 1 have been recognized as liabilities at June 30 in the debt service fund.
- b. Compensated absences, pension-related debt, claims and judgments, estimated liability for municipal solid waste landfill post-closure care cost and other long-term liabilities are recorded only when they mature (when payment is due).

- c. Certain 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 (except debt and related interest in the debt service fund) when they mature and consist of mortgage and notes payable, compensated absences, pension-related debt, claims and judgment, landfill obligation and other long-term liabilities.
- d. Executory purchase orders and contracts are recorded as nonexpendable fund balances in the general fund.

- 3) **Proprietary Fund Financial Statements** – The proprietary fund financial statements are reported using the economic measurement focus and the accrual basis of accounting. Accordingly, the statement of revenue, expenses and changes in net position 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.

e. Stewardship, Compliance and Accountability

Budgetary Control

The Municipality prepare annual budgets for the general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 13.

The Municipal Legislature has 10 business days, but not later than June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature

will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances, and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Departments of Finance and Budget have the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs and among funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, public safety, public works, culture and recreation, health and welfare, urban development, economic development, education, capital outlays and debt service) within the general and debt service funds, respectively.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed

for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects 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 accompanying supplemental budgetary comparison schedule – general fund provides information about the general fund’s original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the ensuing fiscal year.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, was used by the general fund and the capital improvements bond fund during the fiscal year.

For financial statement purposes, encumbrances outstanding at year end are reported within assigned and committed fund balance classifications, as applicable, and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The unencumbered balance of any appropriation of the general fund at the end of the fiscal year lapses immediately. Appropriations, other than in the general fund, are continuing accounts than can be carried forward and made available for spending in subsequent fiscal years.

At June 30, 2013, the Municipality has outstanding encumbrances in the general fund and the capital improvements bond fund amounting \$32 million and \$96.5 million, respectively, which are recorded within assigned fund balance and restricted fund balance, respectively.

f. Assets, liabilities and net position

1) Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments in money market accounts that are readily convertible to cash and have original maturities of three month or less.

2) Receivables and Payables

Receivables consist of all revenues earned but not collected at year-end. 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 other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs while in the debt service fund represents uncollected contributions from the Commonwealth of Puerto Rico restricted by law to cover the debt service requirements of various series of bonds and notes payable.

3) **Supplies Inventories and Prepaid Insurance**

In governmental funds financial statements, supplies inventories and prepaid insurance are recorded as expenditures at the time of purchase for the entire amount of the purchase/prepayment. However, these are capitalized and amortized in the government wide financial statements.

Supplies inventories consist of medicines used in providing health care services to patients and office supplies held for consumption that are stated at the lower of cost (first-in, first-out method) or market.

4) **Loans Receivable and Allowance for Loan Losses**

Loans receivable are stated at their unpaid principal balances, net of the allowance for loan losses and deferred loan fees. Loan fees are recognized as income over the contractual term of the loan using the effective interest method. The carrying amount of loans receivable is reduced by an allowance for loan losses which is maintained at a level that the Municipality considers adequate to absorb credit losses inherent in the loan portfolio.

The amount of the allowance is based on an evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical data, specific impaired loans, economic conditions and other risks inherent in the loan portfolio. The allowance is increased by a provision for loan losses, and reduced by charge-offs, net of recoveries.

Interest income is recognized over the term of the loan and is calculated using the effective interest method. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other impaired loans is recognized only to the extent of interest payments received.

The Municipality considers a loan impaired when based on current information or factors (such as payment history, value of collateral, and assessment of the customer's current creditworthiness), it is probable that the principal and interest payments will not be collected according to the loan agreement.

Loans are placed on nonaccrual status when, after considering economic and business conditions and collection efforts, that the loans are impaired or collection of interest is doubtful. Uncollectible interest previously accrued is charged off, or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent that cash payments are received.

The other governmental funds include non-spendable fund balances to offset the carrying value of loans receivable as an indication that such resources are not considered current available financial resources at year-end since they are not expected to be currently converted to cash after the current fiscal year-end.

5) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, infrastructure and intangible assets. These assets are capitalized and reported in the accompanying government-wide statement of net position and the statement of net position – proprietary fund. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost of \$5,000 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$5,000 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures) in the acquiring fund.

In the government-wide statement of net position and the statement of net position – proprietary fund, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair 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.

Major outlays for capital assets and improvements are capitalized in the government-wide statement of net position and the statement of net position – proprietary fund as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense is recorded only in the government-wide and enterprise fund financial statements. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

<u>Description</u>	<u>Years</u>
Buildings	40
Building and site improvements	15
General infrastructure	40

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Intangible assets (computer software)	10
Licensed vehicles	5
Machinery and equipment	3 to 5
Machinery and equipment held under capital leases	Shorter of 5 years or lease term

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 urban and economic development function.

For capital leases in governmental fund financial statements, the Municipality presents the net present value of the minimum lease payments at the inception of the capital lease recorded simultaneously as expenditures and as other financing sources. Minimum lease payments are recorded as expenditures.

The Municipality periodically evaluates its capital assets to consider events or changes in circumstances that may give rise to asset impairment. Among the factors considered by management as part of its evaluation are: physical damages to an asset where action would be needed to restore lost service utility, changes in laws, regulations, or other environmental factors that may negatively affect service utility, technological developments that may negatively affect service utility, changes in the manner or duration of use of a capital asset that may negatively affect its service utility, and stoppage of construction or development of an asset.

An impairment loss would be reported in the government-wide statement of net position or the statement of net position - proprietary fund net of any realizable insurance recovery. For impairment losses recoverable through disaster assistance programs sponsored by higher levels of government (such as the Federal Emergency Management Agency - FEMA), the loss would be reported separately from the grant awarded for recovery purposes.

Any impairment adjustment to the carrying value of a capital asset would be treated as a proportionate reduction of both the reported value of the asset and its accumulated depreciation, based on the notion that the impairment represents the effective retirement of a portion of the asset.

6) Deferred Inflows of Resources

In governmental funds financial statements, deferred inflows of resources arise 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 and collected within sixty (60) days for property taxes and ninety (90) days for all over revenue streams 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.

Deferred inflows of resources in government wide and proprietary funds financial statements arise only when the Municipality receives resources before it has a legal claim to them.

7) **Tax Revenue Anticipation Notes**

Tax revenue anticipation notes (TRANS) consist of short-term borrowings in anticipation of pending collections of municipal license taxes and sales and use taxes for the purpose of meeting near-term cash flow requirements.

8) **Long-term Obligations**

The long-term liabilities reported in the accompanying statements of net position include the Municipality's bonds payable, notes payable, accrued compensated absences, pension-related debt, claims and judgments, estimated liability for municipal solid waste landfill post-closure care costs and other long-term liabilities.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1 are recorded as governmental fund liabilities in the debt service fund when resources are available. In governmental fund financial statements, face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

9) **Compensated Absences**

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 payment is due.

The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that is attributable to services already rendered and is not contingent on a specific event. The liability 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 used.

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.

10) Leases

The Municipality classifies its lease agreements either as operating or capital leases. Capital lease agreements are generally non-cancelable and involve substance over form, the transfer of substantially all benefits and risks inherent in the ownership of the leased property, while operating leases do not involve such transfer. Accordingly, a capital lease involves the recording of an asset and a related lease obligation at the inception of the lease. The Municipality classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the following four criteria:

- a. By the end of the lease term, ownership of the leased property is transferred to the Municipality.
- b. The lease agreement contains a bargain purchase option.
- c. The lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property.
- d. At the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year, most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. Leases that meet at least one of the aforementioned four criteria and have a fiscal funding or a cancellation clause are generally recorded as capital leases.

In government wide and proprietary fund financial statements, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executory costs and profit thereon to be paid by the lessor. A portion of each minimum lease payment is allocated to interest expense and the balance is applied to reduce the lease obligation using the effective interest method.

11) Accounting for Pension Cost and Post-Employment Benefits

The Municipality participates 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.

12) Claims and Judgments

In government wide and proprietary funds financial statements, the Municipality recognizes an expense and a liability for claims and judgments only when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments includes all claim adjustment expenses that are incremental (directly related to individual claims). In governmental fund financial statements, an expenditure and a liability is recognized only as liabilities come due for payment.

13) Estimated Liability for Municipal Solid Waste Landfill Post-closure Care Costs

The Municipality recognizes landfill post-closure costs as an expense and a liability throughout the period that the Municipality benefited from the landfill operations while it was still in use. The landfill closed in fiscal year 2000, therefore the liability for post-closing care costs was completely recognized in fiscal year 2000 immediately prior to the landfill's closing date.

The estimated liability for solid waste landfill post-closure care costs includes an estimate of all costs to be incurred after year-end under the accrual basis of accounting. The estimates of post-closing care costs were made using current costs (costs that would be incurred if the closing date of the landfill would have been at year-end). The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

In governmental funds financial statements, an expenditure for landfill post-closure care costs is recognized only at the point where related liabilities normally would be expected to be liquidated with current expendable financial resources.

14) Termination Benefits

The Municipality generally recognizes a liability and an expense for voluntary termination benefits (early-retirement incentives) in the government wide financial statements 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 governmental funds financial statements, liabilities and expenditures for termination benefits are generally recognized to the extent the liabilities are normally expected to be liquidated with current expendable financial resources.

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

15) Inter-fund and Intra-entity Transactions

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among funds:

- a. **Inter-fund loans** – 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.
- b. **Inter-fund transfers** – Represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. These are reported as other financing sources in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- c. **Inter-fund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

Inter-fund activity has not been eliminated.

16) 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 year-end. 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, 2013 amounted to approximately \$5.4 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, 2013 amounted to approximately \$5.9 million.

17) 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. 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.

18) Change in Reporting Entity and Reclassifications

On July 1, 2012 the Municipality recorded a change in reporting entity by which the balance sheets and the statement of revenues, expenditures and changes in fund balances / (deficit) of the individual nonmajor governmental funds composing the capital improvements bond fund as of and for the fiscal year ended June 30, 2012 have been comingled and reclassified from other governmental funds into a single major governmental fund in the accompanying financial statements to conform the 2013 major governmental fund presentation and enhance comparability (see note 18).

In addition, certain other reclassifications have been made in the 2012 figures reported to conform to the current financial statement presentation.

19) Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and deferred outflows and liabilities and deferred inflows, the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

20) Accounting Standards Issued But Not Yet Adopted

The Governmental Accounting Standards Board has issued the following standards that have not been adopted by the Municipality, and are currently under evaluation for their impact in future financial statements:

- a. GASB Statement No. 66 (GASB 66), Technical Corrections—2012 – an amendment of GASB Statements No. 10 and No. 62, was issued in March 2012. The requirements of GASB 66 are effective for financial statements for periods beginning after December 15, 2012.
- b. GASB Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 was issued in June 2012. The provisions of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2014.
- c. GASB Statement No. 69 (GASB 69), Government Combinations and Disposals of Government Operations, was issued in January 2013. The requirements of GASB 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- d. GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. The requirements of this Statement are effective for reporting periods beginning after June 15, 2013.
- e. GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68, which is effective simultaneously with GASB Statement No. 68.

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Notes to Basic Financial Statements
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3. DEPOSITS

At June 30, 2013, the carrying amounts and the respective bank balances of the Municipality's deposits are as follows:

	Carrying amounts of deposits				Total
	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	
<i>Unrestricted:</i>					
Cash in commercial banks:					
Cash equivalents	\$ 42,329,115	\$ -	\$ -	\$ -	\$ 42,329,115
Other demand deposits	41,029,393	-	-	-	41,029,393
<i>Restricted:</i>					
Cash in commercial banks	95,760,306	-	3,271,012	24,060,739	123,092,057
Cash with fiscal agent	5,078,786	127,426,622	111,024,987	12,472,652	256,003,047
Totals	<u>\$ 184,197,600</u>	<u>\$ 127,426,622</u>	<u>\$ 114,295,999</u>	<u>\$ 36,533,391</u>	<u>\$ 462,453,612</u>
Bank balances of deposits					
	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	Total
<i>Unrestricted:</i>					
Cash in commercial banks:					
Cash equivalents	\$ 42,329,115	\$ -	\$ -	\$ -	\$ 42,329,115
Other demand deposits	53,507,387	-	-	-	53,507,387
<i>Restricted:</i>					
Cash in commercial banks	98,342,734	-	1,057,193	25,704,044	125,103,971
Cash with fiscal agent	9,739,008	127,426,622	111,014,990	12,472,652	260,653,272
Totals	<u>\$ 203,918,244</u>	<u>\$ 127,426,622</u>	<u>\$ 112,072,183</u>	<u>\$ 38,176,696</u>	<u>\$ 481,593,745</u>

The Municipality's deposits consist principally of unrestricted and restricted demand deposits in the Government Development Bank for Puerto Rico (GDB), as fiscal agent, and various commercial banks. The deposits include cash equivalents of \$42.3 million in the general fund that are held in commercial banks at year-end.

Cash equivalents and other unrestricted deposits in the general fund are available to meet general operating requirements of the Municipality, including the payment of short-term obligations of the general fund, most of them which are budgeted.

The Municipality maintains an internal cash management pool in which several funds participate on a dollar equivalent and daily transaction basis. At June 30, 2013, the pool cash account in commercial banks had a balance of \$24.1 million of which \$8.2 million and \$15.9 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 Commonwealth, 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

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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. Deposits in GDB are exempt from the collateral requirement established by law, therefore are uninsured and uncollateralized.

Restricted cash in commercial banks of \$95.8 million in the general fund consist of unspent proceeds of borrowings made through the issuance of Series A, B and C of the 2013 Municipal General Obligation Notes that are restricted for the payment of certain operating expenses and other working capital purposes (see note 12E).

Restricted cash in fiscal agent of \$5.1 million in the general fund consists of collections of former hotel municipal taxes that are available for the operation of various municipal programs and intergovernmental grants and contributions from the Puerto Rico Electric Power Authority (PREPA) amounting to \$2.7 million and \$2.0 million, respectively, that are restricted for the maintenance and repairs of the municipal electrical infrastructure, and unspent proceeds of \$0.4 million related to borrowings made in previous fiscal years for the payment of certain operating expenses.

Restricted cash in fiscal agent in the debt service fund consist of property tax collections and intergovernmental operating grants and contributions received from Commonwealth amounting to \$111.1 million and \$16.3 million, respectively, that are available for the debt service payments of bonds and certain general obligations notes.

Restricted cash in commercial banks and fiscal agent in the capital improvements bond fund, amounting to \$3.3 and \$111 million, respectively, consist of unspent bonds and notes proceeds that are restricted for the acquisition, construction or improvements of major capital assets financed with public debt.

Restricted cash in commercial banks of other governmental funds amounting \$24 million consist of intergovernmental operating and capital grants contributions received from the Commonwealth and the federal government of the United States of America that are available for the operations of several programs.

Restricted cash in fiscal agent of other governmental funds amounting \$12.5 million consist of intergovernmental capital grants and contributions from the Commonwealth amounting to \$12.0 million that are restricted for the construction of a public transportation system and other general infrastructure assets.

4. ACCOUNTS RECEIVABLE

a. *Property Taxes*

The Municipality is authorized by Law 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, 2013 was 8.53 percent (of which taxpayers pay 8.33 percent and the remaining 0.20 percent is paid by the Commonwealth, 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, 2013 was 10.53 percent (of which 10.33 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Commonwealth, 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 Commonwealth pays 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.

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 and certain notes. 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 2011, 2012 and 2013.

b. *Municipal License Taxes*

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth. 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, 2013, 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, 2013. Municipal license taxes collected prior to June 30, 2013 but pertaining to the next fiscal year are recorded as unearned revenues.

Sales and Usage Taxes

The Municipality imposes a sales and usage tax within the territorial limits of the Municipality pursuant to the Internal Revenue Code of the Commonwealth. 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.

c. ***Construction Excise Taxes***

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.

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Municipality of San Juan
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Notes to Basic Financial Statements
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d. Intergovernmental Receivables

The composition of intergovernmental receivables in the general fund at June 30, 2013 is:

	General fund	Other governmental funds	Total
<i>State and local intergovernmental entities:</i>			
Puerto Rico Treasury Department -			
Employees' Christmas bonus cost reimbursement	\$ 1,580,692	\$ -	\$ 1,580,692
Total state and local intergovernmental entities	<u>1,580,692</u>	<u>-</u>	<u>1,580,692</u>
<i>Federal grants and contributions:</i>			
Workforce Investment Act	-	1,826,599	1,826,599
Community Services Block Grant	-	1,746,655	1,746,655
HIV Emergency Relief Formula Grant	-	871,847	871,847
Head Start	-	855,446	855,446
Risk Reduction	-	799,338	799,338
Federal Transit Administration	-	740,342	740,342
Community Development Block Grant	-	512,741	512,741
Housing Opportunities for Persons with AIDS	-	330,838	330,838
Other federal grants and contributions	-	1,172,385	1,172,385
Total federal grants and contributions	<u>-</u>	<u>8,856,191</u>	<u>8,856,191</u>
 Total intergovernmental receivables	 <u>\$ 1,580,692</u>	 <u>\$ 8,856,191</u>	 <u>\$ 10,436,883</u>

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. Miscellaneous Accounts Receivable

Miscellaneous accounts receivable as of June 30, 2013, are as follows:

	General fund	Other governmental funds	Total
Medical services receivable	\$ 6,494,242	\$ -	\$ 6,494,242
Other miscellaneous	1,570,871	329,737	1,900,608
Total other receivables	<u>\$ 8,065,113</u>	<u>\$ 329,737</u>	<u>\$ 8,394,850</u>

5. LOANS RECEIVABLE

Loans receivable of the Independent Capital Fund, a nonmajor special revenue fund, consist of the outstanding balances of various credit facilities granted under a revolving loan program to private small business in the aggregate amount of \$10.4 million, net of an allowance for loan losses of \$5.4 million. The majority of these loans are collateralized or guaranteed by either first, second and third mortgage notes on real estate and/or chattel mortgage over machinery and equipment.

6. INTERFUND TRANSACTIONS

Inter-fund receivables and payables among governmental funds are summarized as follows at June 30, 2013:

a. Due from/to Other Fund

Due to other governmental funds	General fund	Capital improvements bond fund	Other governmental funds	Total
Capital improvements bond fund	\$ 14,126,294	\$ -	\$ -	\$ 14,126,294
Other governmental funds	7,456,824	4,762,876	3,423,284	15,642,984
Totals	\$ 21,583,118	\$ 4,762,876	\$ 3,423,284	\$ 29,769,278

Transfers to other governmental funds	General fund	Other governmental funds	Total
General fund	\$ -	\$ 2,417,651	\$ 2,417,651
Debt service fund	84,863	-	84,863
Capital improvements bond fund	5,000,384	-	5,000,384
Totals	\$ 5,085,247	\$ 2,417,651	\$ 7,502,898

The principal purposes of interfund receivables and payables among governmental funds are:

- Recognize the outstanding balance of \$14.1 million of long-term advances granted by the general fund to the capital improvements bond fund to temporarily finance the costs of the acquisition, construction and improvement of several capital assets. These advances are not expected to be repaid within one fiscal year after year-end. Accordingly, at June 30, 2013 the general fund reported assigned fund balance amounting to \$14.1 million to properly disclose that these interfund receivables are not considered current available financial resources of the general fund at June 30, 2013 (Note 13).
- Recognize the outstanding balance of \$7.5 million of short-term loans granted by the general fund to other governmental funds to temporarily finance the payroll and other operating costs of several federally and state funded programs.

The principal purposes of inter-fund transfers among governmental funds are:

- Make a routinary transfer of interest income amounting to \$5.0 million from the capital improvements bond fund to the general fund, as permitted by law. This interest income was earned by the deposits held in the capital improvements bond fund and was transferred to the general fund, net of the contributions amounting to \$1.0 million made by the general fund to the capital improvements bond fund to cover a portion of the costs of various capital projects.
- Make a routinary transfer of resources, amounting to \$2.4 million, from the general fund to other governmental funds, to cover the operating costs of several federally and state funded programs.

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7. CAPITAL ASSETS

The composition and activity of capital assets for the fiscal year were as follows:

	Balance at beginning of fiscal year, as restated	Reclassifications	Increases	Decreases	Balance at end of fiscal year
<u>Governmental Activities:</u>					
Capital assets, not being depreciated:					
Land	\$ 120,426,130	\$ 2,760,239	\$ 84,950	\$ -	\$ 123,271,319
Works of art	2,224,365	-	-	-	2,224,365
Construction in progress	38,389,949	(11,780,005)	18,669,775	(16,404,953)	28,874,766
Total capital assets not being depreciated	<u>161,040,444</u>	<u>(9,019,766)</u>	<u>18,754,725</u>	<u>(16,404,953)</u>	<u>154,370,450</u>
Capital assets, being depreciated:					
Buildings and building improvements	440,960,115	131,750	5,083,251	-	446,175,116
Site improvements	179,111,997	1,738,495	2,914,692	(13,988)	183,751,196
Infrastructure	257,895,501	7,149,521	14,275,441	-	279,320,463
Equipment and vehicles	39,067,066	-	10,110,306	-	49,177,372
Intangible	3,825,426	-	-	-	3,825,426
Total capital assets being depreciated	<u>920,860,105</u>	<u>9,019,766</u>	<u>32,383,690</u>	<u>(13,988)</u>	<u>962,249,573</u>
Less accumulated depreciation for:					
Buildings and building improvements	(191,172,090)	-	(18,249,716)	-	(209,421,806)
Site improvements	(114,101,106)	-	(7,297,412)	-	(121,398,518)
Infrastructure	(80,924,078)	-	(9,347,344)	-	(90,271,422)
Equipment and vehicles	(23,206,504)	-	(6,243,985)	-	(29,450,489)
Intangible	(3,825,426)	-	-	-	(3,825,426)
Total accumulated depreciation	<u>(413,229,204)</u>	<u>-</u>	<u>(41,138,457)</u>	<u>-</u>	<u>(454,367,661)</u>
Total capital assets being depreciated, net	<u>507,630,901</u>	<u>9,019,766</u>	<u>(8,754,767)</u>	<u>(13,988)</u>	<u>507,881,912</u>
Governmental activities capital assets, net	<u>\$ 668,671,345</u>	<u>\$ -</u>	<u>\$ 9,999,958</u>	<u>\$ (16,418,941)</u>	<u>\$ 662,252,362</u>
<u>Business-type Activities:</u>					
Capital assets, not being depreciated:					
Land	\$ 18,600,000	\$ -	\$ -	\$ -	\$ 18,600,000
Total capital assets not being depreciated	<u>18,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,600,000</u>
Capital assets, being depreciated:					
Buildings and building improvements	36,400,000	-	-	-	36,400,000
Total capital assets being depreciated	<u>36,400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,400,000</u>
Less accumulated depreciation for:					
Buildings and building improvements	(1,365,595)	-	(910,000)	-	(2,275,595)
Total accumulated depreciation	<u>(1,365,595)</u>	<u>-</u>	<u>(910,000)</u>	<u>-</u>	<u>(2,275,595)</u>
Total capital assets being depreciated, net	<u>35,034,405</u>	<u>-</u>	<u>(910,000)</u>	<u>-</u>	<u>34,124,405</u>
Business-type activities capital assets, net	<u>\$ 53,634,405</u>	<u>\$ -</u>	<u>\$ (910,000)</u>	<u>\$ -</u>	<u>\$ 52,724,405</u>

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

<i>Governmental activities:</i>	<u>Amount</u>
General government	\$ 5,286,574
Public safety	2,591,604
Public works	12,253,409
Culture and recreation	8,408,318
Health and welfare	5,104,706
Urban development	299,430
Economic development	5,703,559
Education	<u>1,490,857</u>
Total depreciation expense	<u>\$ 41,138,457</u>

<i>Business-type activities:</i>	<u>Amount</u>
International Center	<u>\$ 910,000</u>

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at year-end are as follows:

	<u>General fund</u>	<u>Capital improvements bond fund</u>	<u>Other governmental funds</u>	<u>Total</u>	<u>Statement of net position</u>
Accounts payable to suppliers	\$ 80,893,492	\$ 2,268,461	\$ 6,432,507	\$ 89,594,460	\$ 99,115,479
Compensated absences due and payable	3,482,652	-	-	3,482,652	3,482,652
Payroll-related accrued liabilities	14,888,176	-	-	14,888,176	22,510,853
Total	<u>\$ 99,264,320</u>	<u>\$ 2,268,461</u>	<u>\$ 6,432,507</u>	<u>\$ 107,965,288</u>	<u>\$ 125,108,984</u>

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Municipality of San Juan
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9. INTERGOVERNMENTAL PAYABLES

Intergovernmental payables at year-end are as follows:

	<u>General fund</u>
Puerto Rico Medical Services Administration	\$ 8,000,000
Puerto Rico Highways and Transportation Authority	12,000,000
Puerto Rico Aqueduct and Sewer Authority	7,255,982
Puerto Rico Employees Retirement System	2,703,380
Puerto Rico State Insurance Fund Corporation	1,134,251
Total	<u>\$ 31,093,613</u>

10. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources recorded in the GWFS and the GFFS are as follows at June 30, 2013:

	<u>General fund</u>	<u>Debt service fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>	<u>Statement of net position</u>
<i>Unavailable revenues:</i>					
Property taxes	\$ 20,053,493	\$ 14,957,532	\$ -	\$ 35,011,025	\$ -
Sales and usage taxes	1,600,155	-	-	1,600,155	-
Construction excise taxes	1,229,199	-	-	1,229,199	-
Intergovernmental grants and contributions	1,580,691	-	-	1,580,691	-
Other	2,464,832	-	121,334	2,586,166	-
Total earned and unavailable revenues	<u>26,928,370</u>	<u>14,957,532</u>	<u>121,334</u>	<u>42,007,236</u>	<u>-</u>
<i>Unearned revenues:</i>					
Municipal license taxes	98,738,854	-	-	98,738,854	93,687,764
Total deferred inflows	<u>\$ 125,667,224</u>	<u>\$ 14,957,532</u>	<u>\$ 121,334</u>	<u>\$ 140,746,090</u>	<u>\$ 93,687,764</u>

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11. LONG-TERM OBLIGATIONS

Long-term obligations activity for the fiscal year ended June 30, 2013 was as follows:

<u>Governmental activities:</u>	Balance at beginning of fiscal year, as restated	Increases	Decreases	Balance at end of fiscal year	Due within one year
Bonds payable	\$ 520,533,000	\$ -	\$ (41,096,000)	479,437,000	\$ 42,846,000
Mortgage payable	3,465,315	-	(403,634)	\$ 3,061,681	439,312
Notes payable	233,385,815	183,730,000	(15,945,486)	401,170,329	18,948,189
Compensated absences	64,597,505	10,534,777	(14,707,769)	60,424,513	4,884,248
Pension-related debt	12,439,241	-	(3,928,188)	8,511,053	3,928,188
Claims and judgments	20,832,777	2,309,746	(8,980,210)	14,162,313	-
Estimated liability for municipal solid waste landfill postclosure care costs	16,936,642	-	(736,376)	16,200,266	-
Self insurance claim liability	-	5,390,350	(108,542)	5,281,808	429,000
Other long-term liabilities	9,561,854	3,761,367	(13,323,221)	-	-
Total governmental activities long-term liabilities	<u>\$ 881,752,149</u>	<u>\$ 205,726,240</u>	<u>\$ (99,229,426)</u>	<u>\$ 988,248,963</u>	<u>\$ 71,474,937</u>
<u>Business-type activities:</u>					
Revenue bonds payable and total business-type activities non-current liabilities	<u>\$ 55,071,940</u>	<u>\$ -</u>	<u>\$ (520,000)</u>	<u>\$ 54,551,940</u>	<u>\$ 570,000</u>

Historically, the general fund has been used to liquidate certain notes payable, compensated absences, claims and judgments, solid waste landfill post-closure costs and any other long-term liabilities other than bonds.

a. **Debt Limitation**

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

- 1) Direct obligations of the Municipality (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of the Municipality; and
- 2) Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond

anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirements.

b. Bonds Payable

The Municipality issues general obligation, special obligation and public improvement bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth of Puerto Rico provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt includes bonds and bond anticipation notes. The good faith, credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

As described in Note 4, the Municipality levies an annual additional special ad valorem tax of three and a half percent (3.50%) of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual or semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

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 Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

The Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At year-end, 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.

For financial reporting purposes, the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows:

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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 6.0% to 7.5%	\$ 99,055,000
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 6.0% 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 6.0% to 7.0%	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 4.75% 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 4.75% 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 7.0%	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 5.0% to 7.5%	12,405,000

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<u>Description</u>	<u>Outstanding amount</u>
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 1.53% to 7.5%	3,920,000
2008 general obligation bonds for the second payment of the early retirement termination benefit with an original amount of \$20.0 million due in annual installments of \$305,000 to \$1,635,000, through July 1, 2032; with interest ranging from 1.53% 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 1.53% 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 1.53% to 6.50%	3,665,000

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<u>Description</u>	<u>Outstanding amount</u>
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 1.53% to 7.00%	\$ 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 1.53% 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 5.33%	14,535,000
2005 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
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 5.31%	8,795,000

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<u>Description</u>	<u>Outstanding amount</u>
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

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Description	Outstanding amount
1998 general obligations bonds for the construction and improvements of various capital assets with an original amount of \$18.3 million due in annual installments of \$350,000 to \$1,605,000, through July 1, 2019; with interest ranging from 4.87% to 6.71%	9,120,000
Total	<u>\$ 479,437,000</u>

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

Fiscal year ending June 30,	Principal	Interests
2014	\$ 42,846,000	\$ 30,346,976
2015	36,808,000	27,989,771
2016	37,318,000	25,703,177
2017	35,701,000	23,031,795
2018	31,472,000	21,260,883
2019-2023	96,176,000	85,010,997
2024-2028	97,992,000	53,660,481
2029-2033	64,989,000	25,494,132
2034-2037	36,135,000	4,328,064
Totals	<u>\$ 479,437,000</u>	<u>\$ 296,826,276</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, which is reported as a proprietary fund in the accompanying financial statements. 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, 2013).

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.

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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, 2013.

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

Fiscal year ending June 30,	Principal	Interests
2014	\$ 570,000	\$ 7,522,874
2015	610,000	2,281,270
2016	660,000	2,254,282
2017	700,000	2,225,382
2018	760,000	2,194,357
2019-2023	4,750,000	10,415,250
2024-2028	6,810,000	9,194,225
2029-2033	9,770,000	7,456,570
2034-2037	29,921,940	3,802,764
Totals	<u>\$ 54,551,940</u>	<u>\$ 47,346,974</u>

d. **Mortgage Payable**

The mortgage loan payable with an original amount of \$7.0 million to the government of the United States of America 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:

Fiscal year ending June 30,	Principal	Interests
2014	\$ 439,312	\$ 243,390
2015	478,143	204,559
2016	520,406	162,295
2017	566,405	116,296
2018	616,470	66,231
2019	440,945	14,170
Totals	<u>\$ 3,061,681</u>	<u>\$ 806,941</u>

e. **Notes Payable**

On September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse. The original face amount of the note allocated by CRIM to the Municipality was for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. Principal and interest payments on this financing agreement are accounted for in the general fund. The outstanding principal as of June 30, 2013 approximates \$11.6 million.

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, 2013 approximates \$22.7 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% (0.91% at June 30, 2013) 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, 2013 approximates \$31.6 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% (1.61% at June 30, 2013). The outstanding balance as of June 30, 2013 approximates \$2.1 million. The proceeds of the note were used principally to pay debt incurred in prior years. This note will be repaid from unrestricted property tax revenues.

During June 2006, the Municipality issued a note payable to GDB for \$31.4 million. The note is payable in annual installments through July 2030 ranging from \$0.5 to \$2.4 million and will bear interest at 90-day LIBOR plus 1.25 percent (1.61% at June 30, 2013). The outstanding balance as of June 30, 2013 approximates \$26.0 million. The proceeds of the note were used principally to pay debt incurred in prior years. This note will be repaid from unrestricted property tax revenues.

During January 2008, the Municipality issued a special obligation note (SON-A) for \$36.1 million. The SON-A is payable in annual installments through July 2014 ranging from \$5.1 to \$7.0 million and will bear interest at 90-day LIBOR plus 1.25 percent with a minimum of 5% and maximum of 12% (1.61% at June 30, 2013). The proceeds of the SON-A were used principally to infrastructure capital outlays. The outstanding balance as of June 30, 2013

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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 \$0.06 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% (1.61% at June 30, 2013). 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, 2013 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 \$72.5 million. The borrowings have an outstanding balance of approximately \$50.3 million and is 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, 2013). 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, 2013). The outstanding balance as of June 30, 2013 approximates \$25.4 million. This note will be repaid through sales tax revenues pledge and account for in the Municipality Redemption Fund.

On August 24, 2012, the Municipality borrowed \$18.7 million from GDB for the purpose of acquisition of major capital assets. The notes shall bear interests at variable rates (6.00% at June 30, 2013). The notes are payable in seven (7) annual instalments ranging from \$2.1 million to \$3.3 million, plus interests, through July 1, 2019. The outstanding balance as of June 30, 2013 approximates \$18.7 million.

On June 28, 2013, the Municipality borrowed \$165 million from three commercial banks through the issuance of Series A, B and C of the 2013 Municipal General Obligation Notes amounting to \$80 million, \$60 million and \$25 million respectively, for the purpose of providing working capital and the financial resources needed to repay certain operating expenses amounting to \$165 million.

The 2013, Series A, Municipal General Obligation Notes, shall bear interests at rate of 1.5% over prime rate (4.75% at June 30, 2013). The notes are payable in twenty-five (25) annual installments ranging from \$1.9 million to \$5.1 million, plus interests, through July 1, 2038.

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The 2013, Series B and C, Municipal General Obligation Notes, shall bear interests at variable rates (4.25% at June 30, 2013) and are payable in twenty-five annual installments ranging from \$1.4 million to \$3.8 million and from \$0.6 million to \$1.6 million, respectively, plus interests, through July 1, 2038.

The outstanding balance as of June 30, 2013 of Series A, B and C of the 2013 Municipal General Obligations Notes approximate \$80.0 million, \$60.0 million and \$25.0 million, respectively.

The notes with commercial banks are subject to various debt covenants that the management of the Municipality understands that have been complied with in all material respects, except for certain covenants for which the Municipality has obtained compliance waivers from the respective financial institutions at June 30, 2013.

The maturities of notes payable are as follows:

Fiscal year ending June 30,	Principal	Interests
2014	\$ 18,948,189	\$ 17,368,319
2015	21,830,417	24,521,569
2016	41,520,703	21,810,311
2017	16,999,829	20,816,826
2018	17,903,083	19,761,472
2019-2023	83,306,728	81,827,496
2024-2028	74,404,894	56,696,881
2029-2033	69,876,486	32,509,099
2034-2038	45,975,000	12,809,063
2039	10,405,000	408,375
Totals	\$ 401,170,329	\$ 288,529,411

f. *Compensated Absences*

The government-wide statement of net position includes approximately \$20 million, \$31.7 million and \$8.7 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. The matured portion of such obligation that is due and payable has been recorded in the amount of \$3.5 million within accounts payable and accrued liabilities of the general fund at June 30, 2013.

g. Pension-Related Debt

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.

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 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 position 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,	Amount
2014	\$ 3,928,188
2015	3,928,188
2016	654,677
Total	<u>\$ 8,511,053</u>

h. Estimated Liability for Municipal Solid Waste Landfill Post-closure Care Cost

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's solid waste 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 post closure costs has been assessed to be approximately \$0.7 million for a period of approximately 22 years. The balance of post closure 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.

12. PENSION PLANS

a. *Cost-Sharing Multiple-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, 2011, 2012 and 2013, the Municipality and the participating employees contributed at least 92 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 \$13.2 million, \$13.7 million and \$13.8 million for the fiscal years ended June 30, 2013, 2012 and 2011 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.

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Annual Pension Cost

The Municipality's recommended contribution, pension cost and net change in net pension liability for the fiscal year ended June 30, 2013, are as follows:

	Amount
Annual required contribution and pension cost	\$ 13,260,842
Employer contributions made	<u>(13,260,842)</u>
Net change in net pension liability	-
Pension-related debt, beginning of year	<u>-</u>
Pension-related debt, end of year	<u><u>\$ -</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.

13. FUND BALANCE (DEFICIT)

As of June 30 2013, fund balance (deficit) is comprised of the following:

<i>Fund balances (deficit):</i>	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	Total
Nonspendable:					
Long-term interfund receivables from:					
Capital improvements bond fund	\$ 14,126,294	\$ -	\$ -	\$ -	\$ 14,126,294
Assigned:					
Outstanding encumbrances	32,084,460	-	-	-	32,084,460
Restricted for:					
General government	95,760,306	-	-	-	95,760,306
Public Safety	-	-	-	379,081	379,081
Public Works	-	-	-	186,626	186,626
Health and welfare	-	-	-	11,685,765	11,685,765
Education	-	-	-	(160,673)	(160,673)
Economic development	-	-	-	11,834,674	11,834,674
Debt service	-	63,712,317	-	-	63,712,317
Loans receivable - long-term	-	-	-	4,946,936	4,946,936
Capital projects	-	-	102,664,120	-	102,664,120
Unassigned	<u>(131,269,036)</u>	<u>-</u>	<u>-</u>	<u>(8,538,947)</u>	<u>(139,807,983)</u>
Total fund balances (deficit)	<u>\$ 10,702,024</u>	<u>\$ 63,712,317</u>	<u>\$ 102,664,120</u>	<u>\$ 20,333,462</u>	<u>\$ 197,411,923</u>

14. NET POSITION

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

	<u>Governmental activities</u>	<u>Business- type activities</u>	<u>Total</u>
Capital assets, net of accumulated depreciation	\$ 662,252,362	\$ 52,724,405	\$ 714,976,767
Outstanding balance on capital related debt	(388,905,000)	(54,551,940)	(443,456,940)
Unexpended capital debt proceeds	112,082,183	-	112,082,183
Total net invested in capital assets	<u>\$ 385,429,545</u>	<u>\$ (1,827,535)</u>	<u>\$ 383,602,010</u>

15. 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.

16. 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 fiscal year amounted to approximately \$5.9 million and \$1.3 million, respectively. Management believes that the summary of the future minimum rental commitments under non-cancelable real property and equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

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b. Construction

The Municipality had commitments at year-end of approximately \$94 million for the construction, improvements, or renovation of several capital facilities and the capital assets.

c. Other commitments

At year-end, the general fund had commitments of approximately \$32.1 million for executory purchases orders or contracts that will be honored during the subsequent year.

17. 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 \$14.2 million at year-end, 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:

	<u>2013</u>	<u>2012, as restated</u>
Balance as of July 1, as restated	\$ 20,832,777	\$ 6,100,000
Add: Provision for claims and judgments	2,309,746	16,363,669
Less: Payments or deductions of claims and judgments	(8,980,210)	(1,630,892)
Balance as of June 30	<u>\$ 14,162,313</u>	<u>\$ 20,832,777</u>

The Municipality, based on the advice of legal counsel, believes that the potential claims 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, 2013, 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.

18. PRIOR PERIOD ADJUSTMENTS AND RESTATEMENTS

On July 1, 2012, the Municipality restated the fund balances (deficit) of governmental funds and the net position of its governmental activities to correct the cumulative effect of various instances of misapplication of accounting principles and various mathematical errors in its previously issued financial statements for the fiscal year ended June 30, 2012.

In addition, on July 1, 2012, the Municipality recorded a change in reporting entity by commingling various nonmajor capital improvement bond funds that were previously reported within other governmental funds and reclassifying them as a single major capital improvements bond fund.

The effect as of the beginning of the current fiscal year of the aforementioned adjustments and reclassifications in the fund balances (deficit) of governmental funds and the net position of the governmental activities is as follows:

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Notes to Basic Financial Statements
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	Governmental funds					Adjustment Government Wide	Governmental activities Statement of net position
	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	Total		
Fund balances (deficit) / net position as of the beginning of the fiscal year, as previously reported	\$ (45,455,571)	\$ 66,049,160	\$ 89,966,786	\$ 41,092,784	\$ 130,653,159	\$ -	\$ (3,849,188)
Add/(deduct):							
Change in reporting entity - reclassification of equity of individual capital improvement bond funds	-	-	26,044,485	(26,044,485)	-	-	-
Prior-period adjustments:							
Cash	-	-	3,540,118	789,517	4,329,635	-	4,329,635
Property tax receivable	6,815,036	(6,878,606)	-	-	(62,770)	-	(62,770)
Construction excise tax revenue	(4,658,923)	-	-	-	(4,658,923)	-	(4,658,923)
Intergovernmental receivable	(4,588,017)	832,936	-	-	(3,755,079)	-	(3,755,079)
Other receivable	(1,875,371)	-	-	-	(1,875,371)	-	(1,875,371)
Due to other funds	(3,929,059)	-	372,741	3,556,318	-	-	-
Other assets	(14,443,310)	-	-	-	(14,443,310)	-	(14,443,310)
Accounts payable and accrued liabilities	(14,390,077)	-	13,362,363	1,598,132	570,418	(7,621,475)	(7,051,057)
Deferred inflows	(22,038,069)	(15,107,955)	-	-	(37,146,024)	35,288,302	(1,857,722)
Landfill obligation	-	-	-	-	-	(736,376)	(736,376)
Compensated absences	-	-	-	-	-	(10,268,889)	(10,268,889)
Notes payable	-	-	-	-	-	(12,144,996)	(12,144,996)
Capital assets	-	-	-	-	-	41,417	41,417
Matured bonds and interest payable	-	100,000	-	-	100,000	-	100,000
Loans receivable	-	-	-	(2,313,958)	(2,313,958)	-	(2,313,958)
Total prior-period adjustments	(59,106,990)	(21,053,623)	17,275,222	3,630,009	(59,255,382)	4,557,983	(54,697,399)
Fund balances (deficit) / net position as of the beginning of the fiscal year, as restated	\$ (104,562,561)	\$ 44,995,537	\$ 132,286,493	\$ 18,678,308	\$ 91,397,777	\$ 4,557,983	\$ (58,346,587)

19. SUBSEQUENT EVENTS

The Municipality evaluated subsequent events through April, 24, 2014, date through which the financial statements were available to be issued. Following are the material subsequent events that the Municipality believes require disclosure.

On July 2013, the Municipality borrowed \$50.3 million from GDB for the purpose of providing working capital and the financial resources needed to cover certain operating expenses and deficits incurred during the fiscal year ended June 30, 2012. The notes shall bear interests at variable rates (6.00% at June 30, 2013). The notes are payable in twenty-five (25) annual instalments ranging from \$0.7 million to \$4.2 million, plus interests, through July 1, 2038.

On January 24, 2014, the Municipality borrowed \$5,035,000 from a commercial bank, for the financing of various capital projects and other related expenses. The notes shall be paid on annual principal installments ranging from \$650,000 to \$785,000, plus interests at variable rates starting at 4.50% annually, through July 1, 2020.



REQUIRED SUPPLEMENTARY INFORMATION

Municipality of San Juan
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Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual amounts (Budgetary basis) (See Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 149,884,158	\$ 149,884,158	\$ 146,135,191	\$ (3,748,967)
Municipal license taxes	151,100,000	151,100,000	115,438,245	(35,661,755)
Sales and usage taxes	51,000,000	51,000,000	49,413,693	(1,586,307)
Construction excise taxes	23,719,000	23,719,000	12,008,446	(11,710,554)
Charges for services	61,485,500	61,485,500	48,576,847	(12,908,653)
Interests on deposit	6,500,000	6,500,000	5,270,896	(1,229,104)
Intergovernmental grants and contributions	37,734,418	37,734,418	37,586,104	(148,314)
Miscellaneous revenues	17,376,924	17,376,924	8,730,065	(8,646,859)
Other financing sources:				
Proceeds from issuance of notes	-	-	165,000,000	165,000,000
Transfers from other governmental funds	-	-	85,248	85,248
Total revenues	498,800,000	498,800,000	588,244,735	89,444,735
EXPENDITURES:				
Current:				
General government	88,995,822	86,284,009	84,462,859	1,821,150
Public safety	61,063,800	61,120,661	62,332,624	(1,211,963)
Public works	74,538,000	75,748,043	62,125,809	13,622,234
Culture and recreation	14,921,500	15,627,086	14,874,271	752,815
Health and welfare	189,925,845	190,293,178	201,117,268	(10,824,090)
Urban development	4,763,700	4,507,883	16,237,115	(11,729,232)
Economic development	11,923,000	12,535,607	11,699,946	835,661
Education	10,406,000	10,421,200	10,663,460	(242,260)
Capital outlay	22,789,642	22,789,642	1,402,893	21,386,749
Debt service:				
Principal	14,524,424	14,524,424	14,524,424	-
Interest	4,948,267	4,948,267	4,948,267	-
Other financing uses - transfers to other governmental funds	-	-	4,385,144	(4,385,144)
Total expenditures	498,800,000	498,800,000	488,774,080	14,411,064
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 99,470,655	\$ 103,855,799

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 588,244,735
Differences - budgetary basis to USGAAP:	
The proceeds from the issuance of notes payable are budgetary resources but are regarded as other financing sources for financial reporting purposes	(165,000,000)
Transfers from capital improvements bond fund are recorded as interest income for budgetary purposes	(5,000,385)
Changes assets and deferred inflows of resources:	
Net change in tax, intergovernmental and miscellaneous receivables	1,270,138
Net change in deferred inflows of resources	909,960
Transfers from other governmental funds are budgetary financial resources but not considered revenues for USGAAP	(85,248)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)	<u>\$ 420,339,200</u>

Uses/outflows of resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 488,774,080
Differences - budgetary basis to USGAAP:	
Prior year encumbrances recorded as current year expenditures for USGAAP basis	19,323,897
Current year encumbrances recorded as expenditures for budgetary purposes	(32,084,460)
Changes other assets and liabilities:	
Net change in other unrestricted assets	(1,096,559)
Net change in interfund receivable from proprietary fund and other receivables	242,904
Transfers to other governmental funds are budgetary outflows but not considered expenditures for USGAAP	(4,385,144)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)	<u>\$ 470,774,718</u>

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

Municipality of San Juan

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Notes to the Budgetary Comparison Schedule – General Fund

Fiscal Year Ended June 30, 2013

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are 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, 2013 representing the original budget. There was one supplemental appropriation for the year ended June 30, 2013.

SUPPLEMENTARY INFORMATION

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Monetary Expenditures	Non-Monetary Expenditures
Department of Agriculture (USDA)			
<i>Pass-through from Commonwealth of Puerto Rico Department of Education</i>			
National School Lunch Program	10.555	252,914	
Child and Adult Care Food Program (CACFP)	10.558	2,663,356	
Total Department of Agriculture (USDA)		2,916,270	-
Department of Housing and Urban Development (HUD)			
<i>Direct programs</i>			
Mortgage Insurance Rental Housing for the Elderly	14.138	\$ -	\$ 3,061,681
Section 8 Housing Assistance Payment Program	14.195	1,795,793	
<i>Community Development Block Grant Cluster</i>			
Community Development Block Grants/Entitle Grants	14.218	9,725,888	
ARRA-Community Development Block Grants	14.253	155,295	
Emergency Shelter Grants Program	14.231	589,802	
Supportive Housing Program	14.235	1,110,971	
Shelter Plus Care	14.238	663,845	
HOME Investment Partnership Programs	14.239	6,456,360	
Housing Opportunities for Persons with AIDS	14.241	6,042,431	
<i>Section 8 Moderate Rehabilitation Cluster</i>			
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	846,413	
Lower Income Housing Assistant Program-Section 8 Moderate Rehabilitation	14.856	3,368,973	
ARRA-Homeless prevention and Rapid Re-Housing Program	14.257	75,552	
Section 8 Housing Choice Vouchers	14.871	22,291,924	-
<i>Pass-through from Commonwealth of Puerto Rico/Department of Health</i>			
HOPWA - Project Sponsor	14.241	1,973,150	
<i>Pass-through from Commonwealth of Puerto Rico Municipal Affairs Office</i>			
Neighborhood Stabilization Program (NSP)	14.256	1,501,117	
Total Department of Housing & Urban Development (HUD)		56,597,514	3,061,681
Department of Justice (DOJ)			
<i>Direct programs</i>			
U.S. Marshall Services- PR Fugitive Task Force	16.000	47,306	
Drug Enforcement Task	16.579	75,312	
Community Prosecution Project Safe Neighborhoods	16.609	149,572	
Drug Free Communities Support Programs Grants	16.729	761,028	
Edward Byrne Memorial Justice Assistant Grant	16.738	60,925	
<i>Pass-through from Commonwealth of Puerto Rico Department of Justice</i>			
Crime Victim Assistant	16.575	21,760	
Total Department of Justice (DOJ)		1,115,903	-

Municipality of San Juan
 (Commonwealth of Puerto Rico)
 Schedule of Expenditures of Federal Awards
 Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Monetary Expenditures	Non-Monetary Expenditures
Department of Labor (DOL)			
<i>Pass-through from Commonwealth of Puerto Rico Right to Employment Administration</i>			
WIA Adult Program	17.258	1,406,665	
WIA Youth Program	17.259	1,048,518	
Dislocated Workers	17.260	756,823	
Total Department of Labor (DOL)		3,212,006	-
Department of Transportation			
<i>Direct programs</i>			
Federal Transit Capital Investment Grant	20.500	22,679	
Federal Transit Formula Grant	20.507	2,210,686	
<i>Pass-through from Commonwealth of Puerto Rico/Traffic Safety Commission</i>			
Drugs, Tobacco & Firearms	20.601	31,426	
Total Department of Transportation (DOT)		2,264,791	-
Department of Energy			
<i>Direct program</i>			
ARRA Energy Efficiency and Conservation Block Grant	81.128	311,253	
<i>Pass-through from Commonwealth of Puerto Rico Governor's Office</i>			
State Energy Program Rebates-ARRA	81.041	93,060	
Total Department of Energy		404,313	-
Department of Education (ED)			
<i>Direct programs</i>			
Federal Pell Grant Program (PELL)	84.063	6,678,856	
Supplementary Educational Opportunity Grants	84.007	41,612	
Federal Work-Study Program (FWS)	84.033	67,364	
TRIO Student Support Services	84.042	326,683	
Total Department of Education (ED)		7,114,515	-
Department of Health and Human Services (HHS)			
<i>Direct programs</i>			
Head Start	93.600	25,129,751	
HIV Emergency Relief Project Grants	93.914	15,426,080	
Consolidated Health Centers	93.224	319,453	
Cancer Control	93.399	1,033,912	
Special Projects of National Significance	93.928	8,000	
<i>Pass-through from Commonwealth of Puerto Rico Families and Child Administration</i>			
Community Services Block Grant	93.569	4,249,825	
Child Care and Development Block Grant	93.575	38,019	
<i>Pass-through from Commonwealth of Puerto Rico Governor's Office</i>			
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	984,830	
Protection and Advocacy for Individuals with mental illness	93.138	65,883	

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Monetary Expenditures	Non-Monetary Expenditures
<i>Pass-through from National Health Institute-WESTAT</i> National Health Institute-WESTAT	93.990	229,161	
<i>Pass-through from Commonwealth of Puerto Rico Department of Education</i> Risk Reduction	93.941	164,915	
<i>Pass-through from Harvard College</i> Child Health and Human Development Extramural Research	93.865	220,352	
Mitochondrial Determinants of Metabolic Disease in HIV-Infected Children	93.361	1,732	
Total Department of Health & Human Services (HHS)		<u>616,160</u>	<u>-</u>
Corporation for National and Community Service			
<i>Pass-through from Commonwealth of Puerto Rico Department of Health</i> Foster Grandparent Program	94.002	59,466	
Retired and Senior Volunteer Program	94.011	380,863	
Total Corporation for National and Community Service		<u>440,329</u>	<u>-</u>
Department of Homeland Security			
<i>Pass-through from Commonwealth of Puerto Rico Governor's Office</i> Port Security Grant Program	97.056	147,988	
Homeland Security Grant Program	97.067	282,189	
Total Department of Homeland Security		<u>430,177</u>	<u>-</u>
Total expenditures of federal awards		<u>\$ 122,367,731</u>	<u>\$ 3,061,681</u>

Municipality of San Juan

(Commonwealth of Puerto Rico)

Notes to Schedule of Expenditures of Federal Awards

For the year ended June 30, 2013

1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Autonomous Municipality of San Juan. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. SUBRECIPIENTS

During fiscal year 2012-2013, the Municipality disbursed \$12,096,263 to sub-recipients for the realization of healthcare, public service, and housing. The following entities received sub-awards from the Municipality's federal financial assistance programs:

<u>Federal Program</u>	<u>2012-2013</u> <u>Disbursements</u>
Community Prosecution Project Safe Neighborhoods	\$ 104,185
Head Start	624,373
HIV Emergency Relief	8,556,525
Community Services Block Grant	72,251
Community Development Block Grant	154,686
Housing Opportunities for Persons with AIDS	2,584,243
Total	\$ 12,096,263

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
June 30, 2013

	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.871 Housing Choice Vouchers	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
111 Cash - Unrestricted	\$ 101,772	\$ -	\$ 1,514,198	\$ 1,615,970
112 Cash - Restricted - Modernization and Development	-	-	-	-
113 Cash - Other Restricted	-	-	-	-
114 Cash - Tenant Security Deposits	-	2,033,126	-	2,033,126
115 Cash - Restricted for Payment of Current Liabilities	-	-	-	-
100 Total Cash	101,772	2,033,126	1,514,198	3,649,096
121 Accounts Receivable - PHA Projects	-	-	-	-
122 Accounts Receivable - HUD Other Projects	-	-	-	-
124 Accounts Receivable - Other Government	-	-	-	-
125 Accounts Receivable - Miscellaneous	1,000	1,002,838	135,096	1,138,934
126 Accounts Receivable - Tenants	-	-	-	-
126.1 Allowance for Doubtful Accounts - Tenants	-	-	-	-
126.2 Allowance for Doubtful Accounts - Other	-	-	-	-
127 Notes, Loans, & Mortgages Receivable - Current	-	-	-	-
128 Fraud Recovery	-	-	-	-
128.1 Allowance for Doubtful Accounts - Fraud	-	-	-	-
129 Accrued Interest Receivable	-	-	-	-
120 Total Receivables, Net of Allowances for Doubtful Accounts	1,000	1,002,838	135,096	1,138,934
131 Investments - Unrestricted	-	-	-	-
132 Investments - Restricted	-	-	-	-
135 Investments - Restricted for Payment of Current Liability	-	-	-	-
142 Prepaid Expenses and Other Assets	-	-	-	-
143 Inventories	-	-	-	-
143.1 Allowance for Obsolete Inventories	-	-	-	-
144 Inter Program Due From	-	-	-	-
145 Assets Held for Sale	-	-	-	-
150 Total Current Assets	102,772	3,035,964	1,649,294	4,788,030
161 Land	-	-	-	-
162 Buildings	-	-	-	-
163 Furniture, Equipment & Machinery - Dwellings	-	-	-	-
164 Furniture, Equipment & Machinery - Administration	-	301,194	-	301,194
165 Leasehold Improvements	-	-	-	-
166 Accumulated Depreciation	-	(301,194)	-	(301,194)
167 Construction in Progress	-	-	-	-

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
June 30, 2013

	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.871 Housing Choice Vouchers	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
168 Infrastructure	-	-	-	-
160 Total Capital Assets, Net of Accumulated Depreciation	-	-	-	-
171 Notes, Loans and Mortgages Receivable - Non-Current	-	-	-	-
172 Notes, Loans, & Mortgages Receivable - Non Current - Past	-	-	-	-
173 Grants Receivable - Non Current	-	-	-	-
174 Other Assets	-	-	-	-
176 Investments in Joint Ventures	-	-	-	-
180 Total Non-Current Assets	-	-	-	-
190 Total Assets	\$ 102,772	\$ 3,035,964	\$ 1,649,294	\$ 4,788,030
311 Bank Overdraft	-	-	-	-
312 Accounts Payable <= 90 Days	\$ 260	\$ 353,179	\$ 18,097	\$ 371,536
313 Accounts Payable >90 Days Past Due	-	-	-	-
321 Accrued Wage/Payroll Taxes Payable	-	-	-	-
322 Accrued Compensated Absences - Current Portion	-	-	-	-
324 Accrued Contingency Liability	-	-	-	-
325 Accrued Interest Payable	-	-	-	-
331 Accounts Payable - HUD PHA Programs	-	-	-	-
332 Account Payable - PHA Projects	-	-	-	-
333 Accounts Payable - Other Government	-	-	-	-
341 Tenant Security Deposits	-	-	-	-
342 Deferred Revenues	-	-	-	-
343 Current Portion of Long-term Debt - Capital	-	-	-	-
344 Current Portion of Long-term Debt - Operating Borrowings	-	-	-	-
345 Other Current Liabilities	62,134	-	929,858	991,992
346 Accrued Liabilities - Other	-	-	-	-
347 Inter Program - Due To	-	-	-	-
348 Loan Liability - Current	-	-	-	-
310 Total Current Liabilities	62,394	353,179	947,955	1,363,528
351 Long-term Debt, Net of Current - Capital Projects/Mortgage	-	-	-	-
352 Long-term Debt, Net of Current - Operating Borrowings	-	-	-	-
353 Non-current Liabilities - Other	-	-	-	-
354 Accrued Compensated Absences - Non Current	-	-	-	-
355 Loan Liability - Non Current	-	-	-	-
356 FASB 5 Liabilities	-	-	-	-
357 Accrued Pension and OPEB Liabilities	-	-	-	-
350 Total Non-Current Liabilities	-	-	-	-
300 Total Liabilities	62,394	353,179	947,955	1,363,528

Municipality of San Juan
 (Commonwealth of Puerto Rico)
 PHA Number RQ006
 Housing Financial Data Schedule
 June 30, 2013

	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.871 Housing Choice Vouchers	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
508.1 Invested In Capital Assets, Net of Related Debt	-	-	-	-
511.1 Restricted Net Assets	-	2,682,785	-	2,682,785
512.1 Unrestricted Net Assets	40,378	-	701,339	741,717
513 Total Equity/Net Assets	40,378	2,682,785	701,339	3,424,502
600 Total Liabilities and Equity/Net Assets	\$ 102,772	\$ 3,035,964	\$ 1,649,294	\$ 4,788,030

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2013

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
70300 Net Tenant Rental Revenue	\$ -	\$ -	\$ -	\$ -
70400 Tenant Revenue - Other	-	-	-	-
70500 Total Tenant Revenue	-	-	-	-
70600 HUD PHA Operating Grants	22,081,628	795,137	3,659,005	26,535,770
70610 Capital Grants	-	-	-	-
70710 Management Fee	-	-	-	-
70720 Asset Management Fee	-	-	-	-
70730 Book Keeping Fee	-	-	-	-
70740 Front Line Service Fee	-	-	-	-
70750 Other Fees	-	-	-	-
70700 Total Fee Revenue	-	-	-	-
70800 Other Government Grants	-	-	-	-
71100 Investment Income - Unrestricted	9,935	-	-	9,935
71200 Mortgage Interest Income	-	-	-	-
71300 Proceeds from Disposition of Assets Held for Sale	-	-	-	-
71310 Cost of Sale of Assets	-	-	-	-
71400 Fraud Recovery	56,564	99	1,295	57,958
71500 Other Revenue	88,148	44,951	410,012	543,111
71600 Gain or Loss on Sale of Capital Assets	-	-	-	-
72000 Investment Income - Restricted	-	-	-	-
70000 Total Revenue	22,236,275	840,187	4,070,312	27,146,774
91100 Administrative Salaries	1,253,408	48,220	138,567	1,440,195
91200 Auditing Fees	-	-	-	-
91300 Management Fee	-	-	-	-
91310 Book-keeping Fee	-	-	-	-
91400 Advertising and Marketing	2,042	-	-	2,042
91500 Employee Benefit contributions - Administrative	189,875	7,679	19,900	217,454
91600 Office Expenses	16,959	-	2,064	19,023
91700 Legal Expense	-	-	-	-
91800 Travel	5,909	-	-	5,909
91810 Allocated Overhead	-	-	-	-
91900 Other	198,904	46,207	62,677	307,788
91000 Total Operating - Administrative	1,667,097	102,106	223,208	1,992,411

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2013

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
92000 Asset Management Fee	-	-	-	-
92100 Tenant Services - Salaries	-	-	-	-
92200 Relocation Costs	-	-	-	-
92300 Employee Benefit Contributions - Tenant Services	-	-	-	-
92400 Tenant Services - Other	-	-	-	-
92500 Total Tenant Services	-	-	-	-
93100 Water	-	-	-	-
93200 Electricity	-	-	-	-
93300 Gas	-	-	-	-
93400 Fuel	-	-	-	-
93500 Labor	-	-	-	-
93600 Sewer	-	-	-	-
93700 Employee Benefit Contributions - Utilities	-	-	-	-
93800 Other Utilities Expense	6,763	775	3,214	10,752
93000 Total Utilities	6,763	775	3,214	10,752
94100 Ordinary Maintenance and Operations - Labor	-	-	-	-
94200 Ordinary Maintenance and Operations - Materials and	-	-	-	-
94300 Ordinary Maintenance and Operations Contracts	-	-	-	-
94500 Employee Benefit Contributions - Ordinary Maintenance	-	-	-	-
94000 Total Maintenance	-	-	-	-
95100 Protective Services - Labor	-	-	-	-
95200 Protective Services - Other Contract Costs	-	-	-	-
95300 Protective Services - Other	-	-	-	-
95500 Employee Benefit Contributions - Protective Services	-	-	-	-
95000 Total Protective Services	-	-	-	-
96110 Property Insurance	-	-	-	-
96120 Liability Insurance	-	-	-	-
96130 Workmen's Compensation	46,962	1,828	4,889	53,679
96140 All Other Insurance	103,355	6,064	12,557	121,976
96100 Total insurance Premiums	150,317	7,892	17,446	175,655
96200 Other General Expenses	-	-	-	-
96210 Compensated Absences	13,755	-	237	13,992
96300 Payments in Lieu of Taxes	-	-	-	-
96400 Bad debt - Tenant Rents	-	-	-	-
96500 Bad debt - Mortgages	-	-	-	-
96600 Bad debt - Other	-	-	-	-
96800 Severance Expense	-	-	-	-
96000 Total Other General Expenses	13,755	-	237	13,992

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2013

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
96710 Interest of Mortgage (or Bonds) Payable	-	-	-	-
96720 Interest on Notes Payable (Short and Long Term)	-	-	-	-
96730 Amortization of Bond Issue Costs	-	-	-	-
96700 Total Interest Expense and Amortization Cost	-	-	-	-
96900 Total Operating Expenses	1,837,932	110,773	244,105	2,192,810
97000 Excess of Operating Revenue over Operating Expenses	20,398,343	729,414	3,826,207	24,953,964
97100 Extraordinary Maintenance	-	-	-	-
97200 Casualty Losses - Non-capitalized	-	-	-	-
97300 Housing Assistance Payments	20,453,993	689,036	3,124,868	24,267,897
97350 HAP Portability-In	-	-	-	-
97400 Depreciation Expense	58,761	-	-	58,761
97500 Fraud Losses	-	-	-	-
97600 Capital Outlays - Governmental Funds	-	-	-	-
97700 Debt Principal Payment - Governmental Funds	-	-	-	-
97800 Dwelling Units Rent Expense	-	-	-	-
90000 Total Expenses	22,350,686	799,809	3,366,973	26,519,468
10010 Operating Transfer In	-	-	-	-
10020 Operating transfer Out	-	-	-	-
10030 Operating Transfers from/to Primary Government	-	-	-	-
10040 Operating Transfers from/to Component Unit	-	-	-	-
10050 Proceeds from Notes, Loans and Bonds	-	-	-	-
10060 Proceeds from Property Sales	-	-	-	-
10070 Extraordinary Items, Net Gain/Loss	-	-	-	-
10080 Special Items (Net Gain/Loss)	-	-	-	-
10091 Inter Project Excess Cash Transfer In	-	-	-	-
10092 Inter Project Excess Cash Transfer Out	-	-	-	-
10093 Transfers between Program and Project - In	-	-	-	-
10094 Transfers between Project and Program - Out	-	-	-	-
10100 Total Other financing Sources (Uses)	-	-	-	-
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	(114,411)	40,378	701,339	627,306
11020 Required Annual Debt Principal Payments	-	-	-	-
11030 Beginning Equity	2,200,054	-	-	2,200,054
11040 Prior Period Adjustments, Equity Transfers and Correction	597,142	-	-	597,142
11050 Changes in Compensated Absence Balance	-	-	-	-
11060 Changes in Contingent Liability Balance	-	-	-	-
11070 Changes in Unrecognized Pension Transition Liability	-	-	-	-
11080 Changes in Special Term/Severance Benefits Liability	-	-	-	-
11090 Changes in Allowance for Doubtful Accounts - Dwelling	-	-	-	-
11100 Changes in Allowance for Doubtful Accounts - Other	-	-	-	-
11170 Administrative Fee Equity	282,944	-	-	282,944

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2013

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
11180 Housing Assistance Payments Equity	2,399,841	-	-	2,399,841
11190 Unit Months Available	55,632	2,064	5,712	63,408
11210 Number of Unit Months Leased	36,892	1,958	5,516	44,366
11270 Excess Cash	-	-	-	-
11610 Land Purchases	-	-	-	-
11620 Building Purchases	-	-	-	-
11630 Furniture & Equipment - Dwelling Purchases	-	-	-	-
11640 Furniture & Equipment - Administrative Purchases	-	-	-	-
11650 Leasehold Improvements Purchases	-	-	-	-
11660 Infrastructure Purchases	-	-	-	-
13510 CFFP Debt Service Payments	-	-	-	-
13901 Replacement Housing Factor Funds	-	-	-	-

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

The Housing Financial Data Schedule is presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

REPORTS REQUIRED UNDER OMB CIRCULAR A-133



PARISSI P.S.C.

Certified Public Accountants, Tax & Business Advisors

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Municipality of San Juan, Capital City of Puerto Rico, (the Municipality) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Municipality's basic financial statements and have issued our report thereon dated April 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2013-II-1 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies 2013-II-3, 2013-II-4, 2013-II-5, 2013-II-6, 2013-II-7, 2013-II-8 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2013-II-1, 2013-II-2.

Municipality's Response to Findings

Municipality's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Panissi, P.S.C.

April 24, 2014

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PARISSI P.S.C.

Certified Public Accountants, Tax & Business Advisors

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-
133**

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

Report on Compliance for Each Major Federal Program

We have audited the Municipality of San Juan, Capital City of Puerto Rico (the Municipality), compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2013. Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Municipality's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality's compliance.

Basis for Qualified Opinion

As indicated in the following table and described in the accompanying schedule of findings and questioned costs, the Municipality did not comply with certain compliance requirements that are applicable to its major Federal programs. Compliance with such requirements is necessary, in our opinion, for Municipality to comply with the requirements applicable to that program.

Federal Awarding Agency	Federal Program/CFDA Number	Compliance Requirement	Finding No
Department of Housing and Urban Development	14.218 Community Development Block Grant	Reporting	2013-III-2
	14.241 Housing Opportunity for Persons with Aids	Reporting	2013-III-2
		Monitoring	2013-III-6
Department of Health and Human Services	14.239 Home Investments Partnership Programs	Reporting	2013-III-2
	93.600 Head Start	Reporting	2013-III-2
	93.914 HIV Emergency Relief Project Grants	Reporting	2013-III-2
Department of Labor	93.569 Community Services Block Grant	Reporting	2013-III-2
	17.258, 17.259, 17.260 WIA Cluster	Reporting	2013-III-2, 2013-III-8

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major programs described in the preceding paragraph for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-III-7. Our opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-II-1, 2013-III-1 to 2013-III-4, 2013-III-6 to 2013-III-8 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-III-5 to be significant deficiencies.

Municipality's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Parissi, P.S.C.

April 24, 2014

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Section 1 – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unmodified
Internal control over financing reporting:	
1. Material weakness identified?	Yes
2. Significant deficiency (ies) that are not considered to be material weakness?	Yes
3. Noncompliance material to financial statement noted?	Yes

Federal awards:

Internal control over major programs:	
1. Material weakness (es) identified?	Yes
2. Significant deficiency(ies) that are not considered to be material weaknesses?	Yes
3. Type of auditor’s report issued on compliance for major program?	Qualified
4. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.856	Section 8 Lower Income Housing Assistance Program- Section 8 Mederalte Rehabilitation
14.218/14.253	Community Development Block Grant / Entitlement Grants Cluster
14.241	Housing Opportunities for Persons with AIDS
14.871	Section 8 Housing Choice Voucher
93.600	Head Start Administration for Youth and Children
93.914	HIV Emergency Relief Project Grant
17.258, 17.259, 17.260	Workforce Investment Act Cluster
93.569	Community Service Block Grant
84.063	Federal Pell Grant Program
14.138	Section 231 Direct Loan

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as a low-risk auditee? No

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Section 2 – Financial Statement Findings –

Appendix A – Significant Deficiencies Considered Material Weaknesses

2013-II-01 Inadequate Accounting Records and Closing Procedures

- **Criteria** – Article 8.010(a) of the Municipalities Law establishes the Municipality must have an accounting system that provides for a uniform accounting and financial reporting structure that allows the Municipality to carry out its responsibilities. The system and related accounting procedures shall permit the preparation of accurate and complete financial reports that provide complete information regarding the results of operations for the use of the Municipality, the Municipal Legislature, the Governor, the Secretary of the Treasury and the Commissioner of Municipal Affairs.

Article 8.010(b) of the Autonomous Municipalities Law establishes that the accounting shall be maintained by funds and shall be based in general accepted accounting principles as established by the Governmental Accounting Standards Board.

Article 7.001 (a) of the Autonomous Municipalities Law establishes that the Municipality shall close its accounting records at year end to allow for the accurate evaluation of the results of operations for the ensuing fiscal year.

- **Condition** – The Municipality accounting procedures and system does not allow for the preparation and presentation of accurate and complete financial reports periodically or annually. The current practices and policies only provide limited information for certain transactions and require significant efforts and adjustments to conform a financial report in accordance with generally accepted accounting principles. Following are the matters noted that results in this finding:

Overarching Matters Noted: The following matters noted affect the overall financial statement preparation and presentation. Therefore, these are considered to have a significant and material effect on possible errors or irregularities that the Municipality may not be able to prevent or detect on a timely basis because of the pervasiveness of each of these matters. The Municipality:

- Was not able to present accurate and complete supporting documents for certain balances recognized in its June 30, 2012 basic financial statements. Accordingly, as disclosed in Notes to the financial statements, the beginning fund balance/net position was restated to correct several material errors in the June 30, 2012 basic financial statements.
- Does not close its accounting records to prepare financial reports on a monthly basis for all of its operations. Current monthly procedures are carried out on a limited basis and does not provide for an analysis of the overall financial position and results of operations of each of the Municipality's funds and accounts.
- Does not analyze and evaluate accounts balances and transactions on a monthly basis to ensure that these are free from errors or irregularities. The analysis of most account

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- balances and transactions is performed once a year as part of the year-end closing process.
- Does not reconcile periodically and agree amounts in the Municipality's general ledger with the corresponding subsidiary of taxes receivable and accounts payable. The reconciliation of the accounts payable subsidiary with the general ledger is done as part of the year-end closing process.
- Does not have formal cut-off procedures to ensure that all transactions are recorded in the corresponding accounting period.
- Does not prepare budget vs. actual financial reports periodically to provide information regarding the year-to-date results of the Municipality's revenue and expenditure transactions.
- Has a general ledger and related trial balance accounts that appears to be unnecessarily detailed for an effective and efficient accounting and management, as well as it has several funds and hundreds of accounts and balances that remain unchanged for several years, thus appearing to be unnecessary. This makes the accounting structure to be unduly complex for accounting, financial analysis and financial reporting.
- Does not have an integrated financial reporting structure to allow for the effective and efficient preparation of the Municipality's basic financial statements including the conversion process for the government-wide financial statements. The 2013 basic financial statements and related conversion was completed after a significant gathering of formal and informal documents, many of which required corrections and adjustments.

Matters Related to Cash Accounts: The Municipality:

- Does not reconcile on timely basis (i.e. 30 days after end of month) to permit the analysis and detection of possible errors or irregularities.
- Did not analyze on a timely basis why there are unreconciled cash balances in the accounting records for which the corresponding checking account has been closed.
- Did not analyze on a timely basis the propriety or reasonability for checks that remain outstanding for several periods to ascertain the reasons for these checks to remain uncashed.

Matters Related to Taxes, Loans and Other Receivables: The Municipality:

- Does not have an effective accounting policy or procedures to account for property tax revenue and related receivables. The Municipal Revenues Collection Center is responsible for administering the billing and collection of real and personal property taxes. However, the Municipality does not perform any control or review procedures to ensure the accuracy and completeness of the amounts and transactions that are recorded by the Municipal Revenues Collection Center that are accounted for in the Municipality's accounting records. Therefore, material errors may exist and the Municipality has not established controls to prevent or detect those errors.
- Does not have an updated and accurate municipal license tax subsidiary ledger.

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- Does not have effective and efficient collection and follow up initiatives to collect amounts due from loans and other receivables, as required by Article 8.003 of the Autonomous Municipalities Law.

Matters related to capital assets: The Municipality:

- Does not have a capital assets subsidiary ledger integrated within the accounting system. Capital assets listings are maintained in an informal manner in excel worksheets. The final amounts presented in the Municipality's basic financial statements resulted after significant audit and management adjustments and corrections.
- Does not carry out a periodical reconciliation of the amounts recorded as capital asset acquisition expenditures with the additions recorded in capital assets accounts. The reconciliation was done as part of the year-end closing process.
- Does not have effective and consistent capitalization policies. The current practice of determining the capital assets presented in the statement of net position is through an informal process and items are not evaluated for capitalization under the current capitalization policy.
- Does not perform a capital assets inventory every two years. Therefore, there is the possibility that the actual capital assets on hand does not agree with the current list of capital assets. Accordingly, the Municipality may not prevent or detect on a timely basis the unauthorized use or disposition of its capital assets.
- There was not a detailed does not perform a complete and formal analysis for capital assets impairment.
- Does not identify capital assets that were acquired with federal funds in its subsidiary records, as required by federal regulations. See Single Audit finding number 2013-III-1.

Matters Related to Accounts Payable: The Municipality:

- Has not analyzed on a timely basis a significant number of old outstanding accounts payable to vendors and suppliers. Therefore, there is the possibility of old accounts payable that have been paid, and the invoice has not been removed from the subsidiary ledger.
- Have several accounts payable and accrual accounts that are carried with debit balances, indicating the possibility of errors or over payments, because payables and accrual accounts are credit accounts.
- Does not periodically reconcile the accounts payable subsidiary with the general ledger. Therefore, significant errors may still exist and not corrected as of year-end.
- Does not periodically reconcile the accounts payable with its suppliers and vendors. Statements. During fiscal year 2013 as part of the year end process certain balaces with major suppliers were analyzed. The Municipality should continue with the process during fiscal year 2014.

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Matters Related to Debt: The Municipality:

- Does not account for long term debt balances in its accounting system on a timely basis nor it has a subsidiary ledger that provides a detail of all its long-term obligations. The detail of long term debt is prepared as part of the year-end closing process and kept in electronic worksheets. The long-term debt presented in the government-wide basic financial statements is assembled from numerous external documents and resources.
- Does not have current information and legal agreements related to its long term obligations.
- Does not reconcile periodically the debt service payments with the amortization table.

Matters Related to Interfund Balances and Transactions: The Municipality:

- Does not periodically reconcile the balances and transactions among its funds, thus transactions and transfers between funds are not recorded concurrently.
- Does not periodically analyze de adequacy and reasonability of balances due from and to different funds to determine whether the debtor fund is able to repay the amount due. As part of the year-end closing process, an extensive analysis was performed over the interfund balances which led to numerous adjustments.

Matters Related to Accrued Vacations: The Municipality:

- The Municipality's payroll process and accrued compensated absences have material weaknesses in its operations and administration. Considering that the Municipality has approximately 6,800 to 7,200 employees, the following matters noted are significant weaknesses on internal control and compliance:
 - Accrued compensated absences module of the payroll system is not used. Instead, the Municipality maintains compensated absences balances informally in excel worksheets
 - The aforementioned worksheets are not subjected to supervisory review and validation. Our audit disclosed that:
 - Manual records had significant differences on number of accrued days
 - Days presented did not correspond to the current fiscal year
 - The list is not complete. From our sample, six current employees were not identified or included in the accrued compensated absences list.
- **Cause** – This situation occurs because the Municipality has not adopted, and in other instances have not enforced, sound, effective and efficient accounting and financial reporting policies and procedures to address the requirements of the Autonomous Municipalities Law. In addition, the Municipality's financial accounting and reporting structure is not designed to gather the necessary information efficiently and effectively to permit:
 - Timely analysis of transactions and balances
 - Reconciliation among trial balances and subsidiary ledgers
 - Concurrent recording of inter fund transactions and reconciliation of balances
 - The maintenance of up-to-date and accurate capital asset balances and details.

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- ***Effect*** – The overall effect is that the Municipality's financial information was not complete or accurate to allow management to make informed and timely decisions. Errors or irregularities may occur and not be detected on a timely basis. Critical financial information may only be available at year-end, after extended analysis of accounts and transactions. As a result of the aforementioned situations, among others, the Municipality's basic financial statements were restated to correct amounts incorrectly presented as of June 30, 2012. In addition, management posted a significant number of adjustments and corrections in order to correct the amounts presented in its current year financial statements.
- ***Recommendation*** – The Municipality should undertake a major project to review and revise its current accounting and financial reporting structure. This includes, among others, the evaluation of the current accounting and financial reporting software to ensure it meets the necessary standards, establishment or revision of policies and procedures, establishment of reconciliation and analysis processes and procedures, training of all personnel related to accounting and financial reporting responsibilities, and establishing a financial reporting unit. This financial reporting unit should be responsible for overseeing the overall deployment of the project to ensure that goals are met effectively.
- ***Management Response*** – Management agrees with the finding. The Director of Finance of the Municipality will develop a comprehensive work plan for its 2014 year-end closing process to expedite its audit process. Management intends to engage an external accounting advisor to assist the Department of Finance with its year-end closing process. The plan will include a detailed list of procedures needed to close its books including matters identified in this finding, the person responsible for carrying out the specific task assigned and a timetable. The plan will be completed by June 2014. Due to the time already elapsed in fiscal year 2014; some of the recommendations proposed by our external auditors will be addressed in fiscal year 2015.

Responsible official: Director of Finance
Estimated completion date: June 30, 2015

2013-II-02 Budgetary Deficit of 2012 Not Included in 2013 Budget and Accumulated Deficits at 2011 and 2010 Not Amortized in Accordance with Law

Criteria – Article 7.011 (a) of the Autonomous Municipalities Law establishes that if the Municipality closes with a deficit in any fiscal year, the Municipality must include such deficit in the following year's budget as a means to provide the necessary resources to cover such deficit. Article 7.001(b) of the Autonomous Municipalities Law establishes that the operational deficit as of June 30, 2010 and 2009 presented in the audited financial statements resulting from issuing debt shall be amortized for a period no longer than 40 years. The amortization shall be appropriated as an annual expenditure within the following fiscal years' budget.

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Condition - The Municipality's basic financial statements for the year ended June 30, 2012 presented on page 77, a Budgetary Comparison Schedule for its General Fund. As presented in such document, the Municipality closed its 2012 fiscal year with a deficit of \$26,501,099. However, the approved budget for the fiscal year 2012-13 did not provide an appropriation to cover this deficit. The Municipality's audited basic financial statements as of June 30, 2011 and 2010 present a deficit in its general fund of approximately \$16.1 and \$16.8 million respectively. However, the budget for 2012 did not include an amount equal to the required amortization for 40 years. Based on the accumulated deficit at June 30, 2012, the \$16.1 million should be amortized with annual appropriations of at least \$402,500, which represents 1/40th of the general fund's accumulated deficit as of June 30, 2012.

- **Effect** – The Municipality's budget is not in compliance with the Autonomous Municipalities Law and may be subjected to further findings by the Office of the Commissioner of Municipal Affairs and the Office of the Controller of Puerto Rico.
- **Recommendation** – The Municipality should undertake a project to analyze its current financial situation and, with the support from the Office of the Commissioner of Municipal Affairs, should establish a financial plan to provide for the funding of the aforementioned deficit.
- **Management Response** - The Municipality's Budget Document must be presented at the Municipal Legislature by May 31 of each year according with the law. The audited financial statements for each fiscal year are presented officially in October after the end of the fiscal year end. Because of the different filing dates of the Budget Document and the audited financial statements it is impossible to include the possible deficiency in the current budget. Although the Municipality had prepared an amortization schedule for 40 years based on the accumulated deficit at June 30, 2012, of \$45,455,571 with annual appropriations of at least \$1,000,000 ending at fiscal year 2055-56. The amounts for each year will be included in the Budget Document of the corresponding fiscal year.

Responsible official: Director of Management and Budget
Estimated completion date: Continuous

2013-II-03 Municipal License Tax Collections Appropriated for Fiscal 2013-14 Appears to Have Been Used for Expenditures of Fiscal Year 2012-13

- **Criteria** – The municipal license tax that was due and collected in April 2013 provides funds for the Municipality to finance its operations for the fiscal year 2013-14, thus us a deferred revenue that is not available to finance the expenditures of the fiscal year when the amount is due and collected.
- **Condition** – The general fund's balance sheet presents municipal license tax collections as deferred revenue. At June 30, 2013, this amount was \$94 million. However, unrestricted cash on

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hand as of the same date was \$83 million. Therefore, the difference of \$11 million indicates that such funds were used to finance and pay for expenditures of the 2012-13 fiscal year.

- ***Cause*** – This situation occurred because the Municipality’s general fund has an accumulated deficit and its current available resources and recurring collections are not sufficient to cover recurring expenses. Therefore, this is a direct effect of the need to establish stronger budgeting and cost control strategies. This situation appears to result from the practice of expenditures being budgeted and obligated based on a revenue projection that ultimately does not materialize.
- ***Effect*** – The continued occurrence of this situation will continue to worsen the deficit position of the Municipality.
- ***Recommendation*** – The Municipality should take cost control measures to ensure that cash collected related to revenue that is restricted for use only for expenditures of the corresponding fiscal year.
- ***Management Response*** – Management disagrees with this finding. The Municipality took affirmative action to not use the municipal license tax collected in fiscal year 2013 that pertained to fiscal year 2014. During the year, the Municipality obtained various operational loans to finance the operations for fiscal year 2013. However, due to certain timing issues one operational loan amounting to \$50.3 million was not received until July 2013. The loan was recorded in fiscal year 2014.

Responsible official: Director of Finance
Estimated completion date: Not applicable

2013-II-04 Business Continuity

- ***Criteria*** – A contingency plan, including an alternate processing site must be fully functional, tested, and ready for activation at a moment’s notice
- ***Condition*** – The Municipality does not have a current, updated and tested contingency plan to restore operations in case of unforeseen interruptions.
- ***Cause*** – The situation occurred because the Municipality’s Disaster Recovery Plan is from the year 2001, and there have been no efforts to update the plan to meet these requirements.
- ***Effect*** – Critical business functions may not be resumed in a timely and efficient manner in case that an emergency or disaster renders the computer center inoperative. Therefore, the Municipality’s operations and administration may be significantly affected by a major interruption in the case there is a major disaster.

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- **Recommendation** – The Municipality should update or develop a Business Continuity Plan for its Information Technology functions, including its alternate processing facilities. In order to provide full assurance that the alternate processing facility will work effectively, the plan must be tested by simulating all procedures to be performed during a real emergency. The contingency plan must include not only information systems, but agency-wide disaster recovery procedures. Procedures should include manual processing of transactions to ensure continuity of operations until computer processing is restored. These manual procedures should also be simulated on a periodic basis to assure that all current employees are fully trained to perform their duties in case of a disaster, or in any case of prolonged system unavailability. Procedures should be developed to periodically test the plan and perform any necessary updates for changing business conditions and computer environments.
- **Management Response** – Our first initiative will be to review and update the risk analysis and establish the procedures that will permit us to develop our Business Continuity Plan. The following are various procedures that have been or will be implemented: 1) revised the responsibilities of all IT personnel during and after an emergency occurrence; 2) revised the responsibilities of each employee when an emergency plan is executed; 3) obtained a list of all vital personnel and contact information such as addresses and telephone numbers; 4) developed procedures for evacuation of the areas and informed IT personnel as to the routes in case of emergencies; 5) developed procedures as to the utilization of the backup equipment, the corresponding programs, archives and documentation. All procedures mentioned above and those to be developed accordingly are in accordance to the recommendations of the Office of the Controller of Puerto Rico and the Circulars of the Office of Administration and Budget of the Commonwealth of Puerto Rico.

Responsible official: Director of Management and Budget
Estimated completion date: December 31, 2014

2013-II-05 Internal Audit

- **Criteria** – Internal controls in Information Technology operations are critical to mitigating risks of financial misreporting, asset protection, and efficient operations.
- **Condition** – The Municipality's Information Technology operations may not conform to generally accepted internal controls.
- **Cause** – Internal audit has a limited involvement in Information Systems internal controls.
- **Effect** – Considering the Municipality's significant dependency on the use of Information systems throughout its operations, internal controls in the Information Systems functions are a very critical part of the organization. Since there is limited involvement by the Internal audit

function, compliance with policies and procedures may not be monitored appropriately, and recommendations for improvement may not be provided by an independent source.

- **Recommendation** – The Municipality should increase the level of involvement of the internal control expertise typically available from an internal audit function (or outsourced) to perform regular reviews of the following areas:
 - Compliance with MSJ's IT policies
 - System development life cycles of information systems
 - Information System Security monitoring
 - Contingency Planning
 - IT Operations
- **Management Response** – The Internal Audit Office will be soon initiating an audit of the Information Systems Office operations and procedures.

Responsible official: Director of Internal Audit
Estimated completion date: December 31, 2014

2013-II-06 Terminated Employees

- **Criteria** – Human Resources policies and procedures should include the elimination of employee access to information systems immediately during terminations.
- **Condition** – Employees may continue to have access to information systems after termination of employment.
- **Cause** – The Municipality's Human Resources Division is not notifying the Information Technology department promptly of employee terminations. Our review found several USERIDs from employees who had been terminated in the past year.
- **Effect** – Employee terminations present a risk for the misuse of information systems, vandalism, and theft.
- **Recommendation** – The Municipality should enforce policies in Human Resources to notify the Information Technology Division immediately of all employee terminations, changes in functions, and resignations.
- **Management Response** – The Municipality's Human Resources Division will implement the necessary procedures to notify all employee termination immediately to the Information Technology Division.

Responsible official: Director of Human Resources
Estimated completion date: June 30, 2014

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2013-II-07 Security Monitoring

- **Criteria** – Security Officer functions should include the use of security monitoring software to complement security controls and assure they are effective and efficient. The Municipality's strategic plan establishes an Information Security Officer as the position responsible for Information Security and control and for developing a security plan.
- **Condition** – Information security monitoring functions are not performed effectively.
- **Cause** – Although the Municipality's strategic plan establishes an Information Security Officer as the position responsible for Information Security and control, the Municipality currently does not have a Security Officer position and has not implemented an application and operating system security monitoring software. The Municipality's systems have logs which record the system activity that can be available for review, but this information is available only for an after the fact searching in the event of an investigation.
- **Effect** – Without regular system security monitoring reviews, the Municipality may not effectively detect important information security activity such as UserID creation and deletion, changes in privileges, security violations, and system use at unusual hours, login attempts from unauthorized terminals, etc.
- **Recommendation** – The Municipality should have a full-time information system security officer and implement security monitoring software, in order for the officer to monitor security violations, access to critical files, and the activity of security administrators. Security monitoring reports can indicate instances of unauthorized or attempted unauthorized access, which should be subject to a review, investigation, and corrective or disciplinary action, as appropriate. Reports should be tailored to specific user activity (such as activity with security administrator ids, critical file access, program changes, and security policy changes) or specific event related activity (time-specific activity and recurrent password violations), therefore providing useful and manageable reports that a security officer would be able to review regularly without having to sort through numerous line entries on logs. Security monitoring is best performed by application owners, internal auditors or any independent party in order to provide assurance for IT. Super Admin IDs are very powerful tools that should be monitored regularly by independent personnel.
- **Management Response** – We disagree with this finding. The Regulation Manual for the Administration and Use of the Computerized Systems of the Municipality of San Juan, specifically and clearly states the public policy for the utilization of the information stored in the computer systems. The sole purpose of this Manual is to carry out the operations concerning public service and guarantees the confidentiality and privacy of the information according to the laws and regulations applicable in these matters. The IT Office limits access according to the duties authorized to the personnel, these are: archives of information; terminals; programs of production; lists of access codes; utilities and editors on line. Also limited is the manner of

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authorizing access to the personnel and the duties that can be performed by one person. The access codes are controlled and the program requires a periodic change in passwords. The access to Super Admin IDS, have been reduced to three (3) in this fiscal year 2013-2014. We have purchased two (2) firewalls that will permit us to generate specialized reports concerning violation of logic security that will be revised at a later date and will include the following: prevent and detect automatically the installation of undesired programs; prevent and avert attacks which may be accidental or intentional from internal lines to other external information systems or vice versa. We have available lists of authorized passwords that define who is authorized to update, modify, eliminate or visualize data. The users are authorized to access specific areas according to their duties and/or the Municipality's regulations. We have available authorization forms to request access to specific areas that must be authorized by the management of the department and also by the management of the IT Office.

Responsible official: Director of Management and Budget
Estimated completion date: Not applicable

- ***Auditor Conclusion*** – As stated in our finding the information security monitoring functions are not performed effectively. Therefore the finding remains as stated.

2013-II-08 Information Systems Strategic Planning

- ***Criteria*** – A current Strategic Plan serves as a base and guide for the conceptual development of IT projects. MSJ's IT Strategic Plan describes the plan as a dynamic and "living" document which should be revised on an annual basis.
- ***Condition*** – The Municipality's Information Systems Strategic Plan is outdated.
- ***Cause*** – The Municipality's Information Technology Strategic plan dates back to 2007 and names the Office of IT Strategic Planning (OPEI) as responsible for developing, implementing and maintaining the Strategic Plan on a regular basis.
- ***Effect*** – An information systems strategic plan and budget are essential to ensure that scarce information systems resources are used wisely and support the Municipality's business objectives and plans. If use of information resources is not adequately planned, systems development and maintenance activities may result in implementation of information systems that do not fully address the needs of the organization and frequently result in numerous inefficiencies and wasted time, effort and cost.
- ***Recommendation*** – The Municipality should review and update the Information Systems strategic plan. Identify Information Technology and end-user responsibilities for assessing the

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costs and benefits of information technology that would assist the Municipality in meeting its goals. Specifically, the plan may include:

- An information systems strategy that focuses on critical business needs and supports achievement of overall business objectives and plans.
 - Information systems business plans and budgets that are consistent with the information systems strategy.
 - Information systems business plans and budgets that address all relevant aspects of information technology (e.g., hardware, software, new systems, maintenance of old systems).
 - Plans to implement new technologies (e.g., client server) that are consistent with both the information systems strategy and corporate business objectives and plans.
- ***Management Response*** – The projects that are currently being developed lean towards the goals established by the Municipality of San Juan and the services that are offered which are in accordance with the policies of the local area networks. We understand that this will serve our primary goal which is to facilitate and be agile in the services that are offered to the population. We are in the process of evaluating the necessities of our offices, the equipment inventory, licenses and other essential matters in the development of these projects.

Responsible official: Director of Management and Budget
Estimated completion date: June 30, 2015

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Section 3 – Findings As Required by OMB Circular A-133

Finding No. 2013-III-1

Program CFDA No.: 93.600	CFDA program title: Head Start
Program CFDA No.: 14.241	CFDA program title: Housing Opportunities with persons with AIDS
Program CFDA No.: 14.218	CFDA program title: Community Development Block Grant
Program CFDA No.: 93.914	CFDA program title: HIV Emergency Relief Grant
Program CFDA No.: 17.258, 17.259, 17.260	CFDA program title: Work Investment Act Cluster
Program CFDA No.: 93.569	CFDA program title: Community Services Block Grant
Program CFDA No.: 14.239	HOME Investment Act

Compliance over Property Management - Material Weakness

- ***Criteria*** – A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Sub-recipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a sub-grant from a State. The requirements for equipment are contained in the A-102 Common Rule (§.32), program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The A-102 Common Rule requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.
- ***Condition*** – We did not observe adequate reconciliations between physical property inventories and accounting records to assure completeness of property acquired with federal funds.
- ***Cause*** – There are not an appropriate property inventory ledger records to reconcile. Property items have not been accumulated on a timely manner in the respective federal fund inventory subsidiary.
- ***Effect*** – Lack of adequate supporting may expose the Municipality to unauthorized inventory adjustments to be made without being noticed or misappropriation of property assets may occur.
- ***Questioned Costs*** – None
- ***Recommendations*** – The Municipality must establish and follow control procedures over the property management within the federal programs. All records resulting from purchase,

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donations, general ledger recording, dispositions or adjustment based on inventory counting procedures must be kept and safeguarded as a support for the corresponding transaction. Training and supervision should be provided to the front line personnel to ascertain that they have acquired the knowledge and such procedures have been implemented effectively.

- Management Response – We are in the process of performing physical inventories of the entire Municipality. Since the inventory is in a widely spread environment, this process will take various months to complete. Nevertheless, we have physical inventories available from each Municipal Office which are being confirmed with the current information in our accounting archives. We continue to review our accounting process in order to segregate the property subsidiary into each program fund as required.

Assigned Responsibility: Finance Department

Finding No. 2013-III-2

Program CFDA No.: 93.600

CFDA program title: Head Start

Program CFDA No.: 14.241

CFDA program title: Housing Opportunities with persons with AIDS (HOPWA)

Program CFDA No.: 14.218

CFDA program title: Community Development Block Grant

Program CFDA No.: 93.914

CFDA program title: HIV Emergency Relief Grant

Program CFDA No.: 17.258, 17.259, 17.260

CFDA program title: Work Investment Act Cluster

Program CFDA No.: 93.659

CFDA program title: Community Services Block Grant

Program CFDA No.: 14.239

HOME Investment Act

Compliance over Transparency Act- Material Weakness

- **Criteria** – The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts. There are limited exceptions as specified in 2 CFR part 170 and the FAR. The guidance at 2 CFR part 170 currently applies only to Federal financial assistance awards in the form of grants and cooperative agreements, e.g., it does not apply to loans made by a Federal agency to a recipient; however, the subaward reporting requirement applies to all types of first-tier subawards under a grant or cooperative agreement.
- **Condition** – We were not made available any of the reports required by compliance of Transparency Act for the major federal programs above.
- **Cause** – Major programs' personnel were not aware about the requirements of the Transparency act reporting.

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- **Effect – Contracts** or sub awards made by major program are not disclosed as required by federal regulations.
- **Questioned Costs** – None
- **Recommendations** – Federal major program’s personnel must receive adequate continued education and information about rules and regulations affecting their individual programs. Therefore, the Municipality should ensure that all key program management personnel attend seminars and training regarding these rules and regulations, and should maintain all program personnel up to date on these matters.
- **Management Response** – The MSJ will establish procedures to comply with this requirement and report all relative information via the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Assigned Responsibility: Federal Program Manager

Finding No. 2013-III-3

Program CFDA No.: 94.063 Federal Pell Grant

Compliance over Eligibility- Material Weakness

- **Criteria** – A regular student participating in these federal programs must maintain good standing, or satisfactory progress (34 CFR sections 668.16, 668.32, 668.34, 690.75, 675.9, 676.9, 674.9, 685.200, 20 USC 1070h; 42 CFR section 57.306; 42 USC 293a (d)(2))-all award programs-84.063.
- **Condition** – We noted eight (8) students that received Pell Grant awards although there are not in compliance with the required academic progress.
- **Cause** – This situation may have been caused by:
 - A hold status, placed in the student accounts to prevent the students to perform any transactions in the University, was changed to a warning status in the system to allow the students prepare the academic program and paid the different fees and tuition but the warning not preclude the students to receive Pell Grant.
 - The University calculates the academic progress and evaluates the necessary credits by multiplying the attempted credits times the percentage required to have a good academic progress, but then they eliminate the fraction amount and left only the base amount without consider if the fraction is more than 0.5. In other words they do not round to the next amount causing that some students that not comply with the required academic

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progress receive Pell Grants. These cases were not detected by the University evaluation system due to this methodology.

- **Effect** – Not allowable students being served by Pell Grant with federal funds instead of eligible students being served.
- **Questioned Costs** – \$26,832
- **Recommendation** – Program personnel must improve training over program administration supervision and communication resources among program personnel.
- **Management Response** – A hold status was implemented in our computer system to all students who do not meet the standards of academic progress. It will automatically stop the registration and disbursement process of any awards that are available to students. The implementation process is effective immediately. The Academic Progress Standards were established by the institution in collaboration with personnel of the Federal Department of Education. The process to obtain final figures was similar to the federal withdrawal procedures that apply to refund calculation that do not round the result to the next amount. This implementation will be revised to ascertain everyone uses the same procedure. A training and orientation process will be given to the Faculty on the Academic Progress Standards to be executed during academic counseling.

Assigned Responsibility: Federal Program Manager/San Juan University College.

Finding No. 2013-III-4

Program CFDA No.: 93.569 Community Services Block Grant

Compliance over Eligibility- Material Weakness

- **Criteria** – The official poverty guideline as revised annually by HHS shall be used to determine eligibility. The poverty guidelines are issued each year in the Federal Register and on the HHS website (<http://aspe.hhs.gov/poverty/>). A State may adopt a revised poverty guideline but it may not exceed 125 percent of the HHS-determined poverty guidelines (42 USC 9902(2))
- **Condition** – In our eligibility test we observed three out of sixty cases were participants revenues were over program poverty tables. Federal program personnel appears that applied the 125% over the 125% of the 100% of program poverty guidelines, 125% applied twice, therefore appears that formula has been wrongly applied.
- **Cause** – Program's personnel followed instruction from grantee, Puerto Rico Department of the Family, on how to apply the eligibility formula that appears to be wrongly applied.

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- **Effect** – High income ineligible participants will be accepted in the program, occupying the place of the participants that need the program services.
- **Questioned Costs** – N/A
- **Recommendation** – To improve channels of communication and information between program personnel and federal agencies with respect to program's operation and procedures to get program personnel update about programs procedures.
- **Management Response** – Management disagrees with the following statement: "The federal program personnel applied the formula incorrectly." The formula being used was applied per instructions given to the MSJ by the Grantee, the local state agency in charge of these funds, Department of Family (PRDF). We have written to the Administration of the PRDF in order to confirm in writing the instructions given and the applicability of this formula. As soon as we have confirmation, we will comply with the changes suggested should the situation merit the change.

Assigned Responsibility: Federal Program Manager/Department of Community and Social Services.

- **Auditor Conclusion** – As stated in our finding we understand that the poverty formula is not properly applied. Therefore the finding remains as stated.

Finding No. 2013-III-5

Program CFDA No.: 14.239 HOME Investment Act

Compliance over Allowable Cost/ Cost Principle- Significant Deficiencies

- **Criteria** – OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments establishes in its Attachment B Item 8 Compensation for Personnel Services that an employee who works on more than one federal program, or on a combination of a federal programs and a non-federal program, must maintain Personnel Activity Reports (PARs)/(Time and Effort Monthly Log) that accurately reflects the percentage of time/hours the employee spends performing the federal work activity and any other duties. Report must reflect an "AFTER-THE-FACT" distribution of actual activities performed, account for total activity for which employee is compensated, must be completed at least monthly and must be signed and dated by the employee and may be signed by a supervisory official having first-hand knowledge of the activities performed by the employee."
- **Condition**- We observed one employee who works for all PHA Programs and his salaries and related benefits are charged to the HOME Investment Partnership Program in its entirety.

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- ***Cause-*** No allocation base for the services rendered by the employee had been prepared for each program within the Municipality's Housing Department as of June 30, 2013.
- ***Effect-*** Non-compliance with the Cost Principle requirement and Circular A-87. Also, HOME expenditures are overstated and it could affect other compliance requirement directly related to the expenditures made by HOME i.e. Earmarking.
- ***Questioned Costs-*** N/A
- ***Recommendations-*** Prepare and maintain the Personnel Activity Reports (Time and Effort Monthly log to effectively allocate the Personnel working for more than one program's salary to the applicable programs.
- ***Management Response*** – We have determined the appropriate allocation of the Accounting Manager's salary in relation to the different funds he handles. Thus, the other programs will reimburse the HOME program the amount of \$48,737.52 per the analysis provided. In addition, the Manager's salary has been paid with local funds since September 2, 2013.

Assigned Responsibility: Federal Program Manager/Housing Department

Finding No. 2013-III-6

Program CFDA No.: 14.241 Housing Opportunities for Persons with AIDS

Compliance over Subrecipient Monitoring- Material Weakness

- ***Criteria-*** Subrecipient Monitoring: The pass-through entity must monitor subrecipient activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements and achieves performance goals.
- ***Condition-*** No follow-up has been made on four subrecipients as of June 30, 2013 to the findings of the Sub-recipient monitoring reports performed to various Non-for-Profit Organizations.
- ***Cause-*** HOPWA's personnel is not trained to perform these follow-up procedures. The Municipality had a contract with Harrison Consulting, a Company specialized in HOPWA Monitoring and the contract was not renewed as of June 30, 2013.
- ***Effect-*** No reasonable assurance has been provided through subrecipient monitoring reports since no follow-up has been given to the findings that have arisen in the monitoring. Any funds that are not used in accordance with program requirements by the subrecipients may be deemed a questioned cost for the Municipality.
- ***Questioned Costs-*** N/A.

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- ***Recommendations*** – The Municipality should establish a plan to monitor all subrecipients as soon as possible, and to continue monitoring future activities using a risk-based approach to oversee the use and administration of funds granted.
- ***Management Response*** – The Municipality has taken action to correct the situation by providing adequate training to the Quality Control Staff (QCS). The QCS is now performing the monitoring reports and following up on the results.

Assigned Responsibility: Finance Department/Housing Department.

Finding No. 2013-III-7

Program CFDA No.: 14.871
Program CFDA No.: 14.241

Section 8 Housing Choice Vouchers
Housing Opportunities with persons with AIDS

Compliance (other) over Outstanding Checks – Significant Deficiencies

- ***Criteria*** – OMB Circular A-102 Common Rule (§.21) Treasury and administrative regulations at 31 CFR part 205, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.
- ***Condition*** – We observed outstanding checks in the amount of \$789,517 dating back from November 2001 thru August 2010 and for HOPWA approximately \$27 thousand in outstanding checks more than six months.
- ***Cause*** – This situation occurs because the Municipality has not investigated the underlying reasons for these checks remaining outstanding for an unreasonable period of time.
- ***Effect*** – This situation exposes the Municipality to legal claims by payees for amounts that have not been collected.
- ***Questioned Costs***- N/A
- ***Recommendations*** – The Municipality should immediately investigate the underlying reasons for these checks not being cashed by the corresponding payees. In addition, the Municipality should implement an internal control process to provide for investigation of any checks that are not cashed within certain time frame (i.e. 60 days).
- ***Management Response*** – We have corrected the situation which originated this issue by establishing procedures that were not taken into consideration. Provisions have been made to ensure that all checks are canceled in a timely manner.

Assigned Responsibility: Federal Program Manager.

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Finding No. 2013-III-8

Program CFDA No.: 17.258 Work Investment Act Cluster

Compliance over Reporting- Material Weakness

- ***Criteria*** – 45CFR92.20 *Accounting records*. Grantees and subrecipients must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.A-102 Common Rule - Financial reporting, §____.41; Performance reporting, §____.40(b).
- ***Condition*** – During our audit we observed that program runs with two set of accounting records, which are not reconciled each other, and these presented significant differences of the amounts and total balances recorded in each set of accounting records. Program financial reports are prepared with the information from the accounting system that is not the official software of the Municipality.
- ***Cause*** – Program reports to Grantee, financial reports on accounting records that are not the Municipality's official accounting records.
- ***Effect*** – Financial reports will not be accurate because the program runs with two set of accounting records not being reconciled.
- ***Questioned Costs*** – N/A
- ***Recommendations*** – The Municipality should establish a monthly reconciliation process among the two sets of accounting records to ensure that federal financial reports contain the same information that is recorded in the Municipality's official accounting system.
- ***Management Response*** – Considering the extent of this project, we will mention a few of the corrective actions that will permit us to reconcile our accounting records accordingly:
 - Strengthen human resources of the ALDL fiscal unit.
 - Assign personnel to the ALDL WIA Budget to work in coordination with our Fiscal Unit.
 - Training of ALDL and Finance personnel in both financial systems for better understanding of each other's accounting process.
 - Establish equivalence of chart of accounts between Oracle and MIP financial systems.
 - Strengthen communication between Finance and ALDL fiscal units.
 - Perform budget reconciliations for fiscal years 2012 and 2013 in Oracle and MIP systems.

Assigned Responsibility: Federal Program Manager/ALDL

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Summary of Prior Year Findings
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Finding Reference Number	Finding Description	Questioned Cost	Finding Current Status
2011-07	Financial reports of Workforce Investment Act Cluster (WIA) not reconciled with accounting system.	-	Corrective action was implemented.
2011-08	Federal financial reports of Federal Transit Administration Cluster were not submitted.	-	Situation still prevails. See Finding 2013-III-08.
2012-01	Accumulated deficit of general fund at June 30, 2012	-	Situation still prevails. See Finding 2013-II-02.
2012-02	The accounting records are not maintained up to date.	-	Situation still prevails. See Finding 2013-II-01.
2012-03	Checks outstanding for more than months.	-	Situation still prevails. See Findings 2013-II-01 and 2013-III-07.
2012-04	Deficiencies in internal control over property management.	-	Situation still prevails. See Findings 2013-II-01 and 2013-III-1.
2012-05	Deficiencies in the execution of property management procedures.	-	Situation still prevails. See Findings 2013-II-01 and 2013-III-1.
2012-06	Internal control deficiencies of employees files.	-	Situation still prevails. See Finding 2013-II-01.
2012-07	Untimely formalization of contracts.	-	Corrective action was implemented.
2012-08	Instances of noncompliance with procurement requirements.	-	Corrective action was implemented.
2012-09	Internal control deficiencies over WIA eligibility procedures.	-	Corrective action was implemented.