

MUNICIPALITY OF SAN JUAN CAPITAL CITY OF PUERTO RICO

OMB CIRCULAR A-133 AUDIT

As of and For the Fiscal Year Ended June 30, 2008
and Independent Auditors' Report



Fifth Floor of the Municipal Tower, 160 Chardon Avenue, San Juan, Puerto Rico 00919
Visit our web site at www.sanjuancapital.com

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
OMB CIRCULAR A-133
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PART I

**BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND
ADDITIONAL SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE
30, 2008, AND INDEPENDENT AUDITORS' REPORT**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Capital City of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Comunidad del Retiro, which represents 1.5 percent and 1.7 percent of the assets and revenues of the aggregate remaining fund information, respectively. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Comunidad del Retiro, is based on the report of other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Capital City of Puerto Rico, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 18, and the Budgetary Comparison Schedule – General Fund on page 61 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the Municipality's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

December 19, 2008

Aguino, De Cordova, Alfaro & Co. CPAs

Stamp No. 2402789
has been affixed to the
original report

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MANAGEMENT'S DISCUSSION & ANALYSIS

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The Management of the Municipality of San Juan (the "Municipality") provides the Municipality's comprehensive annual financial report and the discussion and analysis of the Municipality's financial performance during the fiscal year ended June 30, 2008.

Since the Management's Discussion and Analysis is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- ❖ The Municipality's net assets increased approximately \$31.7 million.
- ❖ In the fund financial statements, total revenue increased approximately \$23.9 million (or 3.6%) while total expenditures decreased approximately \$15.4 million (or -2.1%).
- ❖ The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of deficit of approximately \$10.5 million.
- ❖ On a budgetary basis, the General Fund's actual revenues exceeded actual expenditures by approximately \$22.8 million.
- ❖ The Municipality issued bonds and notes amounting to approximately \$108.8 million to finance an early retirement termination benefit, capital improvements and equipment.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Municipality. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information (budgetary schedule) and additional supplementary information (combining financial statements) in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, and their difference reported as net assets. Fluctuations in net assets may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are funded by the government's general tax and other revenue sources. This is intended to summarize and simplify the users' analysis of cost of various governmental services.

Fund Financial Statements

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

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

Other Supplementary Information

The combining financial statements referred to earlier in connection with nonmajor governmental funds are presented following the required supplementary information. The total columns of these combining financial statements carry forward to the applicable fund financial statement.

Infrastructure Assets

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

The Municipality elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

Condensed net asset information is presented below:

Condensed Statements of Net Assets (in thousands)

As of June 30,

	2008	(Restated) 2007	Change	Pctg.
ASSETS				
Capital assets	\$ 593,446	\$ 580,124	\$ 13,322	2.3%
Other assets	413,243	348,839	64,404	18.5%
Total assets	1,006,689	928,963	77,726	8.4%
LIABILITIES				
Current liabilities	317,756	336,531	(18,775)	-5.6%
Noncurrent liabilities	732,409	667,673	64,736	9.7%
Total liabilities	1,050,165	1,004,204	45,961	4.6%
NET ASSETS				
Invested in capital assets, net of related debt	203,410	231,537	(28,127)	-12.1%
Restricted for:				
Debt service	19,637	9,404	10,233	108.8%
Capital projects	-	81,625	(81,625)	-100.0%
Unrestricted	(266,523)	(397,806)	131,283	-33.0%
Total net assets	\$ (43,476)	\$ (75,240)	\$ 31,764	-42.2%

The Municipality's combined assets amounted to \$1,006.7 million at June 30, 2008, an increase of \$77.7 million when compared with the prior year. The increase in other assets is mainly the net effect result of: (i) an increase in cash of approximately \$112 million mainly from the proceeds of long-term debt for the acquisition or construction of capital assets and infrastructure net of (ii) a decrease in other accounts receivable of \$10.4 million collected from the sale of capital assets and, (iii) an increase in the allowance for doubtful account of the receivable from property taxes of approximately \$21.0 million.

The Municipality's combined liabilities amounted to \$1,050.2 million at June 30, 2008, an increase of \$46.0 million when compared with the prior year. The increase is mainly due to the issuance of general obligation bonds of approximately \$108.8 million net of principal payments of long-term liabilities of approximately \$70.4 million, including the unfunded pension cost related with an early retirement program and other required contributions.

The largest portion of the Municipality's net assets is the negative unrestricted net assets. The net assets consist of the excess of assets over related liabilities that are neither externally neither legally restricted, neither invested in capital assets. These negative net assets are the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and postclosure costs, claims and judgments and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

An additional portion of the Municipality's net assets represents the investment in capital assets such as land, buildings, equipment, among others, less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represent another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

Changes in Net Assets

The condensed changes in net assets information is presented below:

Condensed Statements of Activities (in thousands)
For the Years Ended June 30,

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>Pctg.</u>
Program revenues:				
Charges for services	\$ 53,142	\$ 50,258	\$ 2,884	5.7%
Operating grants and contributions	118,799	108,213	10,586	9.8%
Capital grants and contributions	-	1,060	(1,060)	-100.0%
General revenues:				
Property taxes	217,728	217,513	215	0.1%
Municipal license tax	149,947	145,599	4,348	3.0%
Sales Tax	54,799	41,362	13,437	32.5%
Construction excise and other local taxes	47,896	26,957	20,939	77.7%
Grants and contributions not restricted to specific programs	27,889	27,077	812	3.0%
Interest income	6,689	7,769	(1,080)	-13.9%
Gain on sale of capital assets	-	10,741	(10,741)	n/a
Other	7,982	35,122	(27,140)	-77.3%
Total revenues	684,871	671,671	13,200	2.0%
Expenses:				
General government	130,922	278,121	(147,199)	-52.9%
Public safety	55,257	53,801	1,456	2.7%
Public works	73,779	70,233	3,546	5.0%
Culture and recreation	20,504	16,886	3,618	21.4%
Health and welfare	252,590	242,465	10,125	4.2%
Urban development	51,247	60,012	(8,765)	-14.6%
Economic development	24,567	26,634	(2,067)	-7.8%
Education	12,595	11,244	1,351	12.0%
Interest on long-term debt	31,646	33,611	(1,965)	-5.8%
Total expenses	653,107	793,007	(139,900)	-17.6%
Change in net assets	31,764	(121,336)	153,100	-126.2%
Net assets at beginning of year, as restated	(75,240)	46,096	(121,336)	-263.2%
Net assets at end of year	\$ (43,476)	\$ (75,240)	\$ 31,764	-42.2%

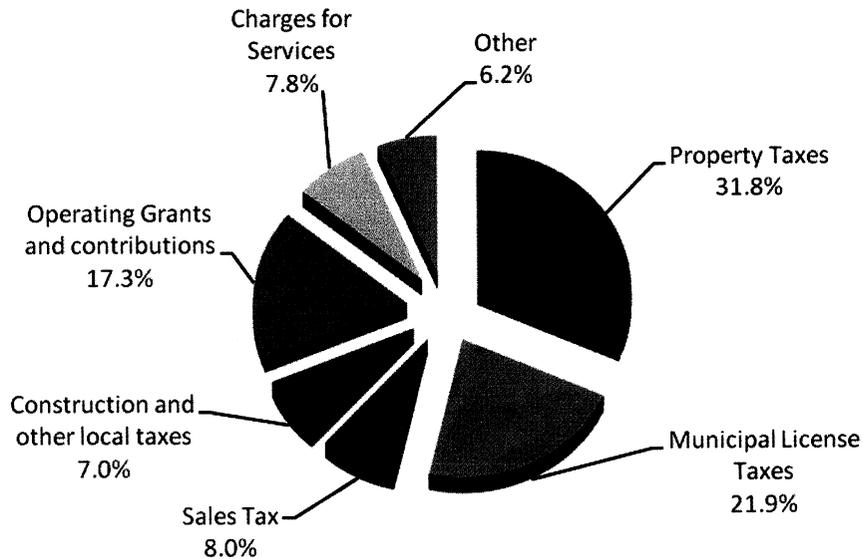
The Municipality's total revenues increased by approximately \$13.2 million. Approximately 68.7 percent (64.2 percent in 2007) of the Municipality's total revenue came from taxes, while approximately 21.4 percent (20.3 percent in 2007) resulted from grants and contributions, including federal aid. Charges for services provided approximately 7.8 percent (7.5 percent in 2007) of the total revenues.

Revenues from property, municipal license, sales and construction excise and other local taxes increased by approximately 9.0 percent due to the effectiveness reached during 2008 over the construction excise tax, property tax and municipal license tax assessments and collections efforts. This effectiveness was the direct result of the creation of the Special Structure and Population Task Force which allowed the Municipality to aggressively pursue delinquent taxpayers.

Charges for services increased by approximately 5.7 percent when compared with prior fiscal year mainly due to an increase in health care service revenues.

The following chart summarizes the Municipality's revenues by sources for the governmental activities for the fiscal year ended June 30, 2008.

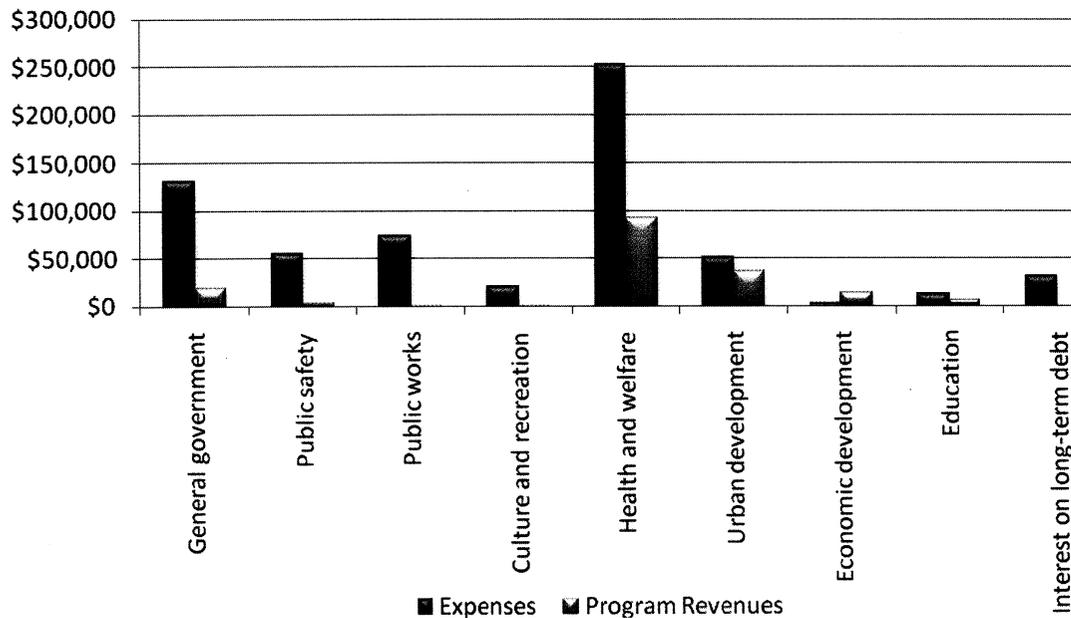
Revenues by Source-Governmental Activities



The Municipality's total expenses amounted to \$653.1 million and \$793.0 million for the year ended June 30, 2008 and 2007, respectively. Decrease in total expenses was mainly due to the pension cost of the early retirement plan and other required contributions of approximately \$128.5 million that were recorded in prior year.

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

Expenses and Program Revenues-Governmental Activities
(In thousands)



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$149.9 million, an increase of \$71.2 million in comparison with the prior year. There are reservations of fund balance amounting to \$229.2 million. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$22.3 million), 2) to pay debt service (\$19.6 million), 3) to pay for capital projects (\$149.8 million), 4) for inventories not yet consumed (\$2.2 million) or 5) advances to other funds (\$35.3 million). Accordingly, since there is an excess of reservations over the total fund balance there exists a deficiency in the unreserved balance of \$79.3 million in the governmental funds.

Within the governmental funds, it is included the general fund, which is the main operating fund of the Municipality. As of June 30, 2008 and 2007, the general fund has a deficit of \$19.5 million and \$30.0 million, respectively. Key factors in the decrease of the deficit are as follows:

- ❖ Increase of \$18.6 million in total revenues.
- ❖ Decrease of \$14.0 million in total expenditures.
- ❖ Net operating transfers of \$3.4 million from other funds
- ❖ Other financing sources amounting \$20.0 million

Increase of \$18.6 million in total revenues was mainly due to the net effect of an increase of approximately \$18.3 million, \$8.3 million and \$6.0 million in construction excise and other local taxes, sales tax and charges for services, respectively; and a decrease of \$19.4 million in other revenues.

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

The decrease of \$14.0 million in expenditures was mainly due to the difference between the current and prior year payment of approximately \$9.3 million for early retirement program, the decrease of bad debt expenditure related with receivable from property taxes of \$16.7 million, and other expenditures related with special programs such as materials, equipments, payroll and professional services in all governmental activities.

The net operating transfer of \$3.4 million represented a non-routine transfer of \$4.6 million from the debt service fund to the general fund by Act No. 64 of July 3, 1996, as amended, which allows municipalities that have excess funds to repay general obligations bonds to transfer such excess to the general fund for operating purposes, and a transfer out of \$1.2 million to a federal program to cover certain expenditures.

Other financing sources amounting to \$20.0 million results from the proceeds of long-term debt issued.

Governmental funds also include the debt service. The fund balance of the debt service fund as of June 30, 2008 and 2007 amounted to \$19.6 million and \$9.4 million, respectively. The change in the debt service fund balance is the result of a new portion of sales tax collected that are restricted for the Municipality Redemption Fund net of the above mentioned transfer to the general fund for operating purposes.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include any changes in revenues that were identified during the course of the fiscal year based on current developments that affected the Municipality's finances. Changes in budgeted expenditures were also revised since the law mandates a balanced budget. During the year, there was no amendment in appropriations between the original and final amended budget.

As a result of the tighter controls imposed by the Municipality's management, there was an excess of revenues over expenditures on the budget of approximately \$22.8 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2008 and 2007 amounted to approximately \$593.4 million and \$580.1 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings, sites, improvements, equipment, intangibles, infrastructure, works of art, vehicles and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the Municipality, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Capital Assets, Net of Accumulated Depreciation (in thousands) As of June 30,

	(Restated)		Change	Pctg.
	2008	2007		
Land	\$ 93,425	\$ 93,425	\$ -	0.0%
Works of art	2,224	2,224	-	0.0%
Buildings and building improvements	223,291	216,669	6,622	3.1%
Site improvements	75,176	81,770	(6,594)	-8.1%
Infrastructure	134,196	114,122	20,074	17.6%
Equipment and vehicles	7,509	7,009	500	7.1%
Intangible	765	1,147	(382)	-33.3%
Construction in progress	56,860	63,759	(6,899)	-10.8%
Total	\$ 593,446	\$ 580,125	\$ 13,321	2.3%

The increase in the Municipality's capital assets was 2.3 percent over last year. Actual expenditures to purchase or construct capital assets for the years ended June 30, 2008 and 2007 were \$43.0 million and \$34.8 million, respectively. Depreciation charges amounted to \$29.8 million and \$30.3 million for the years ended June 30, 2008 and 2007, 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, 2008 and 2007, the Municipality has approximately \$149.8 million and \$81.6 million, respectively, of unexpended proceeds from bond issuances that are committed to future construction activities.

On July 1, 2007, the Municipality recorded a prior-period adjustment to recognize land and building amounting to \$38.6 million and \$1.2 million, respectively, contributed by the U.S. Department of Navy on March 26, 2005. Those capital assets have been retroactively recorded at its estimated fair values as of the donation date and are kept for use in the Municipality's operations of Casa Cuna.

Additional details regarding the Municipality's capital assets can be found in Note 7 to the financial statements.

Debt Administration

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

Based on the current total net assessed valuation of real and personal property in San Juan provided by the Governmental Development Bank for Puerto Rico ("GDB") of approximately \$4.3 billion, the legal margin of the Municipality as of June 30, 2008, was \$425.2 million. The Municipality's available legal margin as of June 30, 2008, was calculated by GDB to equal \$50.0 million after subtracting from the legal margin the amount of \$389.7 million in outstanding general obligation debt as of June 30, 2008, and adding to the legal margin the amount in its Redemption Fund of \$14.5 million as of June 30, 2008.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity." Act No. 64 of July 3, 1996, as amended, provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Debt Service Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("payment capacity"). The rating assigned is BBA/Stable/A-2 by Standard & Poor's Investor Services.

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Debt Service Fund, are not sufficient to cover such debt service. It has never been necessary to apply basic taxes to pay debt service on general obligation debt of the Municipality.

During fiscal year 2008, the Municipality issued bonds and special obligations note amounting to \$88.8 million to provide for the construction and equipment needs of the Municipality and a special obligation bond amounting to \$20.0 million to finance the current portion of an early retirement termination benefit. General obligation debt includes bonds, notes, mortgage and capital leases as shown in the table below:

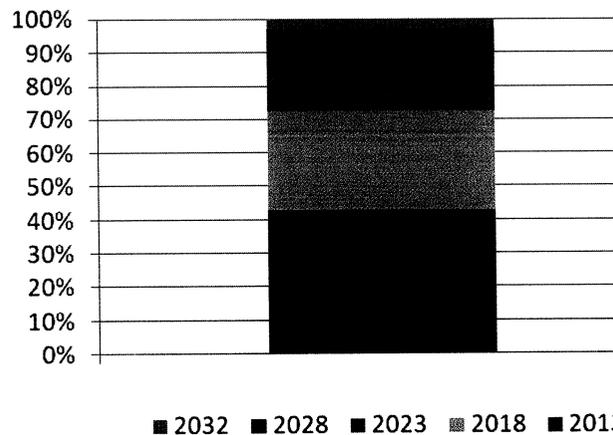
Bonds payable	\$ 389,682	\$ 384,794	\$ 4,888	1.3%
Notes payable	249,287	182,794	66,493	26.7%
Mortgage payable	4,776	5,042	(264)	-5.2%
Obligation under capital leases	657	1,800	(1,143)	-68.5%
Total	\$ 633,404	\$ 574,430	\$ 58,974	11.7%

At June 30, 2008, the Municipality had \$389.7 million of general obligation bonds outstanding. The following chart indicates the principal amortization of the Municipality's general obligation bonds in five-year increments.

2009-2013	\$ 166,721
2014-2018	115,400
2019-2023	53,104
2024-2028	42,056
2029-2032	12,401
Total	\$ 389,682

As can be seen in the following chart, approximately 86.0% of the Municipality's outstanding general obligation bonds will be retired within the next fifteen (15) years.

GOB Principal Amortization



The Municipality has various outstanding notes payable amounting to \$243.3 million at June 30, 2008. Those notes payable were mainly issued for the acquisition, construction or improvement of capital assets. During the fiscal year ended June 30, 2008, notes payable increased \$66.6 million due to the net effect of the issuance of two special obligation notes in the aggregate amount of \$73.2 million and the respective current year debt service payments amounting to \$6.6 million. These special obligation notes payable issued during the fiscal year ended June 30, 2008 will be paid with financial resources arising from sales taxes recorded in the debt service fund.

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. In June 2007, the Commonwealth of Puerto Rico approved an amendment to the Internal Code Revenue to impose and collect an increase on sales and usage tax on behalf of the Municipality that became effective in 2007-2008 fiscal year. It is intended that the use of these revenues will avoid the need of additional resources for working capital purposes. These factors were considered when preparing the Municipality's budget for the 2008-2009 fiscal year.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accounting. If you have questions about the report or need additional financial information, contact the Municipality's Finance Director on the 5th floor of the Municipal Tower, 160 Chardón Avenue, San Juan, Puerto Rico 00919 or visit our website at www.sanjuancapital.com.

BASIC FINANCIAL STATEMENTS

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Governmental
Activities

Assets

Cash and cash equivalents	\$ 131,912,074
Cash with fiscal agent	217,246,170
Accounts receivable:	
Property tax	13,348,886
Municipal license tax	3,862,800
Sales tax	3,944,815
Construction excise tax	7,500,000
Intergovernmental	19,992,251
Other	7,359,047
Inventories	2,227,364
Deferred charges	2,467,566
Restricted cash	3,382,386
Capital assets not being depreciated	152,508,788
Capital assets being depreciated, net	440,936,928
	<hr/>
Total assets	1,006,689,075

Liabilities

Accounts payable and accrued liabilities	66,251,969
Intergovernmental payables	8,703,931
Deferred revenues:	
Municipal license tax	133,100,725
Federal grant revenues	11,145,592
Matured bonds and interest payable	41,637,594
Noncurrent liabilities:	
Due within one year	56,916,294
Due in more than one year	732,408,715
	<hr/>
Total liabilities	1,050,164,820

Net Assets

Invested in capital assets, net of related debt	203,410,069
Restricted for debt service	19,637,401
Unrestricted	(266,523,215)
	<hr/>
Total net assets	\$ (43,475,745)

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

Functions/Programs	Expenses	Program Revenues		Net Expense and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	
General government	\$130,921,864	\$ 5,029,324	\$ 14,521,402	\$(111,371,138)
Public safety	55,257,432	329,498	3,232,296	(51,695,638)
Public works	73,779,395	3,638	-	(73,775,757)
Culture and recreation	20,503,405	631,342	-	(19,872,063)
Health and welfare	252,589,628	38,609,359	53,743,923	(160,236,346)
Urban development	51,247,210	2,167,371	33,820,570	(15,259,269)
Economic development	24,567,119	3,840,769	9,928,944	(10,797,406)
Education	12,595,026	2,530,559	3,552,046	(6,512,421)
Interest on long-term debt	31,646,329	-	-	(31,646,329)
Total governmental activities	\$653,107,408	\$ 53,141,860	\$118,799,181	(481,166,367)
General revenues:				
Property taxes				217,728,332
Municipal license tax				149,946,674
Sales tax				54,799,390
Construction and other local taxes				47,896,137
Grants and contributions not restricted to specific programs				27,889,291
Interest income				6,688,900
Other				7,981,791
Total general revenues				512,930,515
Change in net assets				31,764,148
Net assets at beginning of year, as restated				(75,239,893)
Net assets at end of year				\$ (43,475,745)

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

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 80,947,482	\$ -	\$ 50,964,592	\$ 131,912,074
Cash with fiscal agent	3,971,313	58,620,190	154,654,667	217,246,170
Accounts receivable, net:				
Property tax	4,902,411	8,446,475	-	13,348,886
Municipal license tax	3,862,800	-	-	3,862,800
Sales tax	3,944,815	-	-	3,944,815
Construction excise tax	7,500,000	-	-	7,500,000
Intergovernmental	1,063,638	-	18,928,613	19,992,251
Other	6,819,017	-	540,030	7,359,047
Due from and advances to other funds	50,408,669	-	466,011	50,874,680
Inventories	2,180,029	-	47,335	2,227,364
Restricted cash	-	-	3,382,386	3,382,386
Total assets	\$ 165,600,174	\$ 67,066,665	\$ 228,983,634	\$ 461,650,473
LIABILITIES AND FUND BALANCES (DEFICIT)				
Liabilities:				
Accounts payable and accrued liabilities	\$ 43,577,868	\$ -	\$ 22,674,101	\$ 66,251,969
Intergovernmental payables	8,432,542	-	271,389	8,703,931
Due to and advances from other funds	-	5,791,670	45,083,010	50,874,680
Matured bonds and interest payable	-	41,637,594	-	41,637,594
Deferred revenues:				
Municipal license tax	133,100,725	-	-	133,100,725
Federal grant revenues	-	-	11,145,592	11,145,592
Total liabilities	185,111,135	47,429,264	79,174,092	311,714,491
Fund balances (deficit):				
Reserved for:				
Inventories	2,180,029	-	47,335	2,227,364
Advances	35,255,079	-	-	35,255,079
Debt service	-	19,637,401	-	19,637,401
Capital projects	-	-	149,797,788	149,797,788
Encumbrances	22,292,866	-	-	22,292,866
Unreserved:				
General fund	(79,238,935)	-	-	(79,238,935)
Special revenue funds	-	-	(35,581)	(35,581)
Total fund balances (deficit)	(19,510,961)	19,637,401	149,809,542	149,935,982
Total liabilities and fund balances (deficit)	\$ 165,600,174	\$ 67,066,665	\$ 228,983,634	\$ 461,650,473

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

Total governmental fund balances \$ 149,935,982

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 93,424,552	
Building and site improvements, net of depreciation	298,466,734	
Infrastructure, net of depreciation	134,196,192	
Equipment and vehicles, net of depreciation	7,508,920	
Works of art and intangible assets, net of depreciation	2,989,447	
Construction in progress	<u>56,859,871</u>	
Total		593,445,716

Deferred charges, net of accumulated amortization, are not available to pay for current period expenditures and, therefore, are deferred in the funds 2,467,566

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

Bonds payable	(389,682,000)	
Mortgage payable	(4,777,608)	
Notes payable	(243,286,662)	
Obligations under capital leases	(656,622)	
Compensated absences	(34,235,572)	
Net pension obligation	(79,092,904)	
Claims and judgments	(5,500,000)	
Landfill obligation	(19,800,000)	
Other liabilities	<u>(12,293,641)</u>	
Total		<u>(789,325,009)</u>

Total net assets of governmental activities \$ (43,475,745)

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

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes	\$157,266,878	\$60,461,454	\$ -	\$ 217,728,332
Municipal license tax	149,946,674	-	-	149,946,674
Sales tax	49,708,337	5,091,053	-	54,799,390
Construction and other local taxes	47,896,137	-	-	47,896,137
Licenses and permits	410,893	-	-	410,893
Charges for services	46,182,778	-	2,159,796	48,342,574
Fines and forfeitures	4,388,393	-	-	4,388,393
Interest	6,399,374	22,308	267,218	6,688,900
Intergovernmental:				
Federal	-	-	109,857,120	109,857,120
Local	27,889,291	-	8,942,061	36,831,352
Other	4,922,328	-	3,059,463	7,981,791
	<u>495,011,083</u>	<u>65,574,815</u>	<u>124,285,658</u>	<u>684,871,556</u>
Total revenues				
EXPENDITURES:				
Current:				
General government	134,948,540	-	9,388,109	144,336,649
Public safety	50,151,945	-	2,797,623	52,949,568
Public works	69,641,472	-	2,386,107	72,027,579
Culture and recreation	10,529,443	-	2,458,760	12,988,203
Health and welfare	196,378,258	-	50,554,233	246,932,491
Urban development	6,693,012	-	38,394,853	45,087,865
Economic development	10,514,712	-	8,732,694	19,247,406
Education	8,375,961	-	3,869,125	12,245,086
Capital outlays	4,348,510	-	38,690,406	43,038,916
Debt service:				
Principal	8,129,276	30,687,000	3,094,280	41,910,556
Interest and other charges	8,125,376	20,104,633	3,416,320	31,646,329
	<u>507,836,505</u>	<u>50,791,633</u>	<u>163,782,510</u>	<u>722,410,648</u>
Total expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(12,825,422)</u>	<u>14,783,182</u>	<u>(39,496,852)</u>	<u>(37,539,092)</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	19,995,000	-	88,805,000	108,800,000
Transfers in	4,549,860	-	1,199,042	5,748,902
Transfers out	(1,199,042)	(4,549,860)	-	(5,748,902)
	<u>23,345,818</u>	<u>(4,549,860)</u>	<u>90,004,042</u>	<u>108,800,000</u>
Total other financing sources (uses)				
NET CHANGE IN FUND BALANCES (DEFICIT)	10,520,396	10,233,322	50,507,190	71,260,908
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(30,031,357)</u>	<u>9,404,079</u>	<u>99,302,352</u>	<u>78,675,074</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u><u>\$(19,510,961)</u></u>	<u><u>\$19,637,401</u></u>	<u><u>\$ 149,809,542</u></u>	<u><u>\$ 149,935,982</u></u>

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

Net change in fund balances (deficit) - total governmental funds \$ 71,260,908

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

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

Expenditures for capital assets	\$ 43,038,916	
Current year depreciation	<u>(29,819,959)</u>	13,218,957

The net effect of various transactions involving capital assets (Note 7) 102,463

The issuance of long-term debt (e.g., bonds, leases) provides current
financial resources to governmental funds, while the repayment of the
principal of long-term debt consumes the current financial resources
of governmental funds. Neither transactions, however, has any effect
on net assets. Also, governmental funds report the effect of issuance
costs, premiums, discounts, and similar items when debt is first issued,
whereas these amounts are deferred and amortized in the statement
of activities.

Bond, note and capital lease proceeds	(108,800,000)	
Bond issue costs	643,782	
Principal repayments	<u>41,910,556</u>	(66,245,662)

Payments of certain long-term obligations are recorded as expenditures
in the governmental funds, however, are recorded as a reduction of
their respective long-term liabilities in the statement of net assets. 29,097,974

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

Amortization of deferred charges		(193,089)
Claims and judgments		(2,272,095)
Compensated absences accrual		(7,428,463)
Other liabilities		<u>(5,776,845)</u>
Change in net assets of governmental activities		<u>\$ 31,764,148</u>

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

1. Organization and Reporting Entity

A. Organization

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

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

B. Reporting Entity

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

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

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

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2008.

2. Summary of Significant Accounting Policies

The basic financial statements of the Municipality have been prepared in conformity with generally accepted accounting principles as applied to local governmental units in the United States of America (USGAAP).

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

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

Financial information of the Municipality is presented in this report as follows:

- 1) Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

- 3) The GFFS (i.e., the balance sheet and the statement of revenues, expenditures and changes in fund balances) focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund – is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Debt Service Fund – is the accounting entity used to account for the resources accumulated and payments made for principal and interest on long-term general obligation bonds of governmental funds. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

The other governmental funds of the Municipality account for grants, bond issuances, special obligations notes issuances and other resources whose use is restricted to a particular purpose. The Comunidad de Retiro Fund is included as part of other governmental funds and accounts for the financial position and operation of Comunidad de Retiro (the "Project"). The Municipality formed the Project for the purpose of operating 356-unit housing project for the elderly and/or handicapped. The Project is operated under Section 231 of the National Housing Act, as amended, and regulated by the U.S. Department of Housing and Urban Development as to rent charges and operating methods. Legal title of the Project is held by the Municipality. Separate financial statements of this individual fund can be obtained from the Project's administrative office:

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

- 4) The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
- 5) Required supplementary information such as the budgetary comparison schedule – general fund and the notes to the budgetary comparison schedule – general fund.

B. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Fund types are as follows:

General Fund – The General Fund is the general operating fund of the Municipality. It is used to account for all governmental activities, except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for revenues derived from grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and local statutes.

Debt Service Fund – Debt Service Fund is used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable and certain special obligations notes for which debt service payments are legally mandated to be accounted for in a debt service fund and/or; (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. Consistently with the prior fiscal years' financial statement presentation, during the fiscal year ended June 30, 2008, the financial activity accounted for in the debt service fund was specifically related to bonds payable and special obligations note.

The outstanding balance of general long-term debts for which debt service payments do not involve the advance accumulation of resources (such as obligations under capital leases, notes payable, compensated absences, estimated liability for municipal solid-waste landfill closure and post-closure care costs, pension obligations, claims and judgments and other long-term liabilities) are only accounted for in the accompanying statement of net assets. The debt service payments of such debts are generally accounted for as debt service – principal and debt service – interest expenditures in the general fund.

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

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

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

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

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

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

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

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

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

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

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2008. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred revenues.

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

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposit, intergovernmental grants and contributions and certain charges for services) to be available if collected within 90 days after June 30, 2008, except for property taxes for which the availability period is 60 days. At June 30, 2008, all revenue sources met this availability criterion.

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

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

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2008.

The Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying balance sheet – governmental funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds. Modifications to the accrual basis of accounting include:

- 1) Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1, 2008, which are recorded as governmental fund liabilities at June 30, 2008 which is the date when resources were available in the debt service fund.
- 2) Obligations under capital leases, compensated absences, and the estimated liability for municipal solid waste landfill closure and post-closure care costs are recorded only when they mature (when payment is due).
- 3) Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable (unmatured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.
- 4) Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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

D. Assets, liabilities and net assets

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

The Municipality's cash and cash equivalents are composed of: (1) cash on hand, (2) demand deposits in commercial banks and in the Government Development Bank of Puerto Rico (GDB), and (3) certificate of deposit with original maturities of three months or less from the date of acquisition. Cash equivalents are recorded at amortized cost of \$80.0 million, which approximates fair value.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico, deposited in GDB, and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in the other governmental funds consists of unused proceeds of bonds and notes issued for the acquisition, construction or improvements of major capital assets.

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

2) *Receivables and payables:*

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

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected at June 30, 2008. These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority ("PREPA") as payment in lieu of taxes. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

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

3) *Inventories:*

Inventories in the GFFS have been recorded using the consumption method and are stated at the lower of cost (first-in, first-out method) or market. Inventories consist of supplies held for consumption and medicines used in providing health care services. A fund balance reserve equal to the value of the inventories is established in the general fund and in other governmental funds to indicate that the inventories do not constitute expendable financial resources available for appropriation.

4) *Deferred charges:*

Deferred charges in the accompanying statement of net assets consist of bond issuance costs, net of accumulated amortization of \$1.6 million. Deferred charges are amortized over the term of the related debt using the straight-line method. In the GFFS, bond issuance costs are recorded in the current period as expenditures, whether or not withheld from the actual debt proceeds received.

5) *Capital assets:*

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the GWFS. The Municipality defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are reported at historical cost or estimated historical cost if purchased or

constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

The cost of normal maintenance and repairs that do not add value to the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

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

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

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

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year, most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations.

Leases that meet at least one of the aforementioned four criteria and have a fiscal funding or a cancellation clause have been recorded as capital leases in the accompanying statement of net assets, since the likelihood of invoking the provision is considered remote. The Municipality's lease agreements do not include contingent rental payments nor escalation clauses.

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

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

Intangible assets at June 30, 2008, consist primarily of computer software.

6) *Deferred revenues:*

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

- a. Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (unavailable revenue). As previously discussed, available is defined as due (or past due) at June 30, 2008 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria are met, the liability for deferred revenue is removed and revenue is recognized.
- b. The Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred revenue is removed and revenue is recognized.

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

7) *Long-term obligations:*

The liabilities reported in the government-wide financial statements include the general and special obligation bonds, long-term notes, other long-term liabilities, such as vacation, sick leave, claims and judgments, long-term liabilities to other governmental entities and third parties, and landfill postclosure care costs. Bond issuance costs are reported in the government-wide financial statements as deferred charges and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

8) *Compensated absences:*

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

Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net assets is limited to leave that: (1) is attributable to services already

rendered on or before June 30, 2008 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place. The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

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

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

9) *Claims and judgments:*

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

10) *Landfill:*

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

In the accompanying government-wide statement of net assets, this liability is recognized over the useful life of the landfill prior to its closing, even though such costs are being incurred after the close of the landfill. The estimates of closing and post closing costs are made using current costs. The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

At the governmental funds' level, landfill closure and post-closure care costs are recorded in the statement of revenues, expenditures and changes in fund balances – governmental funds as expenditures in the accounting period in which the liability is incurred.

11) *Termination benefits:*

Termination benefits are accounted for under the provisions of GASB Statement No. 47, *Accounting for Termination Benefits*. Accordingly, the Municipality generally recognizes a liability and an expense for voluntary termination benefits (early-retirement incentives) in the accompanying 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 accompanying governmental fund financial statements, liabilities and expenditures for termination benefits are generally recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

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

12) *Reservations of fund balance:*

Reservations of fund balance in the fund financial statements represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

- a. *Inventories and advances* - Represent fund assets that do not represent available financial resources.
- b. *Debt Service Fund* - Represents net assets available to finance future debt service payments.
- c. *Capital Projects* - Represent the reservation of amounts to be used for future expenditures of capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
- d. *Encumbrances* - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

13) *Net Assets*

Net assets are classified in the accompanying statement of net assets within the following three categories:

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

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

14) *Interfund and intra-entity transactions:*

The Municipality has the following types of transactions among funds:

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

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

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

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

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

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. Cost of insurance allocated to the Municipality for the year ended June 30, 2008 amounted to approximately \$9.4 million. The current insurance policies have not been cancelled or terminated. Workers' compensation insurance covering all municipal employees for the year ended June 30, 2008 amounted to approximately \$9.0 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 of the Municipality. Revenues from these charges are accounted for in the government-wide Statement of Activities as general government and in the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) as charges for services in the general fund. The corresponding expenses appear as function/program costs in the Statement of Activities.

18) *Use of estimates:*

The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

19) *Reclassifications:*

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

20) *Future adoption of accounting pronouncements:*

The GASB has issued the following statements that have effective dates after June 30, 2008:

- a. GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for periods beginning after December 15, 2007.
- b. GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for periods beginning after June 15, 2009.
- c. GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowment*, which is effective for periods beginning after June 15, 2008.
- d. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.

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

3. Prior-Period Adjustment and Restatement

Effective July 1, 2007, the Municipality restated opening net assets for its governmental activities to record donated capital assets. On March 26, 2005, the U.S. Department of the Navy donated a parcel of land and building to the Municipality that were erroneously omitted from the Municipality's capital asset records. The estimated fair value of the land and building are approximately \$38.6 million and \$1.2 million, respectively. The effect of the restatement has increased beginning capital assets and net assets (invested in capital assets, net of related debt) approximately by \$39.8 million. The following table presents a reconciliation of nets assets as of July 1, 2007:

Description	Amount
Net assets as of June 30, 2007, as previously reported	\$(115,072,504)
Prior-period adjustment recorded on July 1, 2007	<u>39,832,611</u>
Net assets as of July 1, 2007, as restated	<u>\$ (75,239,893)</u>

4. Deposits

The Municipality's deposits at June 30, 2008 are composed of: (1) demand deposits in commercial banks (2) demand deposits in the Government Development Bank for Puerto Rico (GDB, fiscal agent) and (3) cash equivalents in commercial banks. Cash equivalents of \$80.0 million are certificates of deposits and are recorded at cost, which approximates fair value.

The Municipality follows the practice of pooling cash. At June 30, 2008, the pool cash account in commercial banks had a balance of \$131.9 million of which \$80.9 million, \$27.6 million, and \$23.4 have been recorded in the general fund, the non-major capital project funds and the non-major special revenue funds, respectively. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations.

Under the laws and regulations of the 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 Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

Cash in fiscal agent in the debt service fund consists principally of property tax collections amounting to \$58.6 million that are restricted for the payment of the Municipality's debt service, as required by law. Cash in fiscal agent of \$4.0 million in the general fund consists mainly of contributions awarded by the Puerto Rico Electric Power Authority that are restricted for the acquisition, construction and improvement of certain minor infrastructure assets. Cash with fiscal agent amounting to recorded in other governmental funds for \$154.7 million consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvements of major capital assets.

Cash in commercial banks in other governmental funds, amounting to \$51.0 million, represents the balance of interest and non-interest bearing accounts restricted to finance the operations of various federal and state funded programs.

The Municipality follows the provisions GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2008:

- A. *Credit risk* – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2008, the Municipality has invested only in cash equivalents of \$80.0 million consisting of certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$100,000. No investments in debt or equity securities were made during the fiscal year ended June 30, 2008. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2008.
- B. *Interest rate risk* – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2008, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. At June 30, 2008, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

- C. *Custodial credit risk* – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. The Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the Government Development Bank for Puerto Rico as promulgated by Law No. 113 of August 3, 1995. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. At June 30, 2008, the Municipality has balances deposited in commercial banks amounting to \$155.0 million which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$100,000. In addition, those public funds deposited in commercial banks are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to \$217.27 million (\$221.7 million bank balance) are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2008. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Therefore, the Municipality's management has concluded that at June 30, 2008, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.
- D. *Foreign exchange risk* – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2008.

5. Receivables

A. Property Tax

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

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (lien; levy date) and reporting such taxable value through a personal property tax return filed on May 15 (due date and collection date) subsequent to the assessment date. The total personal property tax rate in force at June 30, 2008 was 7.03 percent (of which taxpayers pay 6.83 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed every January 1 (lien; levy date) and are based on estimated current values of the property, deflated to 1957 market prices. Real property taxes are due and collectible on January 1 and July of every fiscal year. The total real property tax rate in force at June 30, 2008 was 9.03 percent (of which 8.83 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

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

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

The composition of property taxes receivable is as follows at June 30, 2008:

	General Fund	Debt Service Fund	Total
Property tax receivable	\$ 63,622,803	\$ 8,446,475	\$ 72,069,278
Less: allowance for doubtful accounts	(58,720,392)	-	(58,720,392)
Net property taxes receivable	<u>\$ 4,902,411</u>	<u>\$ 8,446,475</u>	<u>\$ 13,348,886</u>

B. Municipal license Tax

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$1 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2008, 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, 2008. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

C. Sales Tax

The Municipality imposes a sales and usage tax within the territorial limits of the Municipality pursuant to the Internal Revenue Code of the Commonwealth of Puerto Rico. This is a self-assessed tax consisting of one and a half percent (1.5%) on the sale price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. It is collected monthly in a tax return that are due twenty calendar days after the end of each month.

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

Sale tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2008, but pertaining to current year period.

D. Construction excise tax

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

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

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

Construction excise tax receivable represents taxes that were collected subsequent to June 30, 2008, but pertaining to current year period.

E. Intergovernmental Receivables

The composition of intergovernmental receivables in the general fund at June 30, 2008 is:

Description	Amount
Puerto Rico Electrical Power Authority (PREPA)	\$ 498,694
State and Local intergovernmental grants and contributions	564,944
Total intergovernmental receivables	<u>\$ 1,063,638</u>

Amounts due from the PREPA represents the net receivable from the excess of contributions in lieu of taxes of \$24,461,709 charged by the Municipality over the actual electric power consumption expense/expenditure of \$23,963,015 charged by PREPA for the fiscal year ended June 30, 2008.

Intergovernmental receivables in other governmental funds represent principally uncollected reimbursements of expenditures incurred through the assignment of grants and contributions from the federal and local governments. Following is a detail of the intergovernmental receivables at June 30, 2008:

Description	Amount
HIV Emergency Relief Formula Grant	\$ 8,102,443
Community Services Block Grant	4,601,078
Community Development Block Grant	1,120,082
Homeland Security	707,004
Special Program for Aging – Title III	659,723
Workforce Investment Act	582,047
Supportive Housing Program	559,047
Risk Reduction	495,918
Childhood Immunization Grant	287,135
Emergency Shelter Grants	247,486
Housing Opportunities for Persons with AIDS	212,497
Gang Resistance Education & Training	104,665
Others	1,249,488
Total	<u>\$ 18,928,613</u>

F. Other

Other accounts receivable as of June 30, 2008, net of allowance for doubtful account of \$1,184,621, are as follows:

	General Fund	Other Governmental Funds	Total
Medical Plans	\$ 5,140,942	\$ -	\$ 5,140,942
Interests	518,922	-	518,922
Rent	332,366	-	332,366
Other	826,787	540,030	1,366,817
Total other receivables	<u>\$ 6,819,017</u>	<u>\$ 540,030</u>	<u>\$ 7,359,047</u>

6. Interfund Transactions

Interfund receivables and payables at June 30, 2008 are summarized as follows:

A. Due and Advances from/to other fund

Receivable Fund	Payable Fund		Total
	Debt Service Fund	Other Governmental Funds	
General	\$ 5,791,670	\$ 44,616,999	\$50,408,669
Other Governmental Funds	-	466,011	466,011
Total	<u>\$ 5,791,670</u>	<u>\$ 45,083,010</u>	<u>\$50,874,680</u>

1) *Debt Service Fund:*

Act. No. 64 of 1996, as amended, authorized municipalities to withdraw from the debt service fund the excess of cash arising from the ad valorem taxes over the actual debt service requirements of bonds. As of June 30 2008, there were approximately \$5.8 million of such excess of cash recorded as due from other funds in the general fund.

2) *Other Governmental Funds:*

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

The amounts payable to the general fund includes approximately \$35.3 million related to working capital loans made to other governmental funds is not scheduled to be collected in the subsequent year.

B. Transfers in (out)

Transfers Out	Transfers In		Total
	General Fund	Other Governmental Funds	
General	\$ -	\$ 1,199,042	\$ 1,199,042
Debt Service	4,549,860	-	4,549,860
Total	<u>\$ 4,549,860</u>	<u>\$ 1,199,042</u>	<u>\$ 5,748,902</u>

In June 2008 the Municipality made a non-routine transfer of approximately \$4.5 million from the debt service fund to the general fund for working capital purposes, as permitted by Act No. 64 of 1996. In addition, during the fiscal year ended June 30, 2008, the Municipality made a non-routine transfer of approximately \$1.2 million from the general fund to other governmental funds to finance a federal program.

7. **Capital Assets**

Capital assets are primarily funded through the issuance of long-term bonds and notes. Capital assets activity for the year ended June 30, 2008 was as follows:

Governmental Activities:	(Restated) Balance July 1, 2007	Reclassifications	Additions	Retirements and Adjustments	Balance June 30, 2008
Capital assets, not being depreciated:					
Land	\$ 93,424,552	\$ -	\$ -	\$ -	\$ 93,424,552
Works of art	2,224,365	-	-	-	2,224,365
Construction in progress	63,758,701	(20,151,671)	13,125,877	126,964	56,859,871
Total capital assets not being depreciated	159,407,618	(20,151,671)	13,125,877	126,964	152,508,788
Capital assets, being depreciated:					
Buildings and building improvements	329,913,673	16,844,599	2,577,961	-	349,336,233
Site improvements	149,009,031	808,604	524,262	-	150,341,897
Infrastructure	152,116,714	2,498,468	23,801,736	(70,578)	178,346,340
Equipment and vehicles	77,981,544	-	3,009,080	(4,959,188)	76,031,436
Intangible	3,825,426	-	-	-	3,825,426
Total capital assets being depreciated	712,846,388	20,151,671	29,913,039	(5,029,766)	757,881,332
Less accumulated depreciation for:					
Buildings and building improvements	(113,244,763)	-	(12,800,496)	-	(126,045,259)
Site improvements	(67,239,475)	-	(7,926,662)	-	(75,166,137)
Infrastructure	(37,994,671)	-	(6,155,477)	-	(44,150,148)
Equipment and vehicles	(70,973,000)	-	(2,554,781)	5,005,265	(68,522,516)
Intangible	(2,677,801)	-	(382,543)	-	(3,060,344)
Total accumulated depreciation	(292,129,710)	-	(29,819,959)	5,005,265	(316,944,404)
Total capital assets being depreciated, net	420,716,678	20,151,671	93,080	(24,501)	440,936,928
Governmental activities capital assets, net	\$ 580,124,296	\$ -	\$ 13,218,957	\$ 102,463	\$ 593,445,716

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

Governmental activities:	Amount
General government	\$ 3,448,499
Public safety	1,567,391
Public works	1,677,754
Culture and recreation	6,975,704
Health and welfare	4,868,069
Urban development	6,182,612
Economic development	4,949,822
Education	150,108
Total depreciation expense – governmental activities	<u>\$ 29,819,959</u>

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2008 are summarized as follows:

	General Fund	Other Governmental Funds	Total
Accounts payable	\$41,639,576	\$ 22,674,101	\$ 64,313,677
Accrued liabilities	1,938,292	-	1,938,292
Total	<u>\$43,577,868</u>	<u>\$ 22,674,101</u>	<u>\$ 66,251,969</u>

9. Intergovernmental Payables

Intergovernmental payables at June 30, 2008 are summarized as follows:

	General Fund	Other Governmental Funds	Total
Medical Services Administration	\$4,117,702	\$ -	\$ 4,117,702
Puerto Rico Aqueduct and Sewer Authority	1,753,041	19,927	1,772,968
Puerto Rico Employee Retirement System	1,127,929	-	1,127,929
Puerto Rico Treasury Department	1,029,110	24,608	1,053,718
Other	404,760	226,854	631,614
Total	<u>\$8,432,542</u>	<u>\$ 271,389</u>	<u>\$ 8,703,931</u>

10. Deferred Revenues

A. Municipal License Tax

The deferred revenues of approximately \$133.1 million in the general fund at June 30, 2008 relate to municipal license tax collected in fiscal year 2008 that will be earned in fiscal year 2009.

B. Federal Government

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

Program Description	Amount
Section 8 Housing Choice Vouchers	\$ 6,727,661
Head Start	1,516,413
HOME	616,859
Child and Adult Care Food Program	269,188
WESTAT	255,071
Law Enforcement Block Grant	248,467
Maternal Child and Health Services Block Grant	181,913
Others	<u>1,330,020</u>
Total	<u>\$11,145,592</u>

11. Long-Term Debt

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 384,794,000	\$ 35,575,000	\$ (30,687,000)	\$ 389,682,000	\$32,769,000
Mortgage payable	5,041,888	-	(264,280)	4,777,608	287,639
Notes payable	176,427,700	73,225,000	(6,366,038)	243,286,662	12,460,971
Obligations under capital leases	1,800,407	-	(1,143,785)	656,622	628,243
Compensated absences	30,282,658	7,428,463	(3,475,549)	34,235,572	2,500,000
Net pension obligation	101,543,234	-	(22,450,330)	79,092,904	1,922,228
Claims and judgments	5,500,000	2,272,095	(2,272,095)	5,500,000	1,000,000
Landfill obligation	20,700,000	-	(900,000)	19,800,000	900,000
Other liabilities	9,966,249	5,776,845	(3,449,453)	12,293,641	4,448,213
Total	<u>\$ 736,056,136</u>	<u>\$ 124,277,403</u>	<u>\$ (71,008,530)</u>	<u>\$ 789,325,009</u>	<u>\$ 56,916,294</u>

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

A. Legal Debt Margin

The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus the balance of the special ad valorem taxes in the debt service fund. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Total property assessed value at June 30, 2008 amounted to approximately \$4.2 billion. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

B. Bonds Payable

The Municipality issues general obligation bonds mainly to provide funds for the acquisition and construction of major capital facilities. During fiscal year 2008, the Municipality issued bonds for approximately \$35.6 million. Bonds payable outstanding at June 30, 2008 are as follows:

Description	Outstanding Amount
2008 general obligation bonds for the second payment of the early retirement termination benefit with an original amount of \$20.0 million due in annual installments of \$305,000 to \$1,635,000, through July 1, 2032; with interest ranging from 3.93% to 7.25%	\$ 19,690,000
2008 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$4.7 million due in annual installments of \$70,000 to \$390,000, through July 1, 2032; with interest ranging from 3.93% to 7.25%	4,655,000
2008 general obligation bonds for the acquisition of various capital assets with an original amount of \$10.9 million due in annual installments of \$1,245,000 to \$1,900,000, through July 1, 2014; with interest ranging from 3.93% to 7.25%	9,610,000
2007 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$13.8 million due in annual installments of \$320,000 to \$1,260,000, through July 1, 2026; with interest ranging from 6.50% to 7.50%	13,135,000
2007 general obligation bonds for the first payment of the early retirement termination benefit with an original amount of \$22.6 million due in annual installments of \$357,000 to \$1,812,000, through July 1, 2031; with interest ranging from 6.60% to 7.00%	21,842,000
2007 general obligation bonds for the acquisition of various capital assets with an original amount of \$1.6 million due in annual installments of \$270,000 to \$365,000, through July 1, 2011; with interest ranging from 6.80% to 7.50%	1,020,000
2006 general obligation bonds for the acquisition of various capital assets with an original amount of \$7.0 million due in annual installments of \$1,215,000 to \$1,590,000, through July 1, 2011; with interest ranging from 7.00% to 7.50%	4,470,000
2005 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$18.6 million due in annual installments of \$480,000 to \$1,585,000, through July 1, 2025; with interest ranging from 4.23% to 5.31%	17,085,000
2005 general obligation bonds for the acquisition of various capital assets with an original amount of \$6.0 million due in annual installments of \$720,000 to \$1,020,000, through July 1, 2012; with interest ranging from 4.23% to 4.73%	3,745,000

Description	Outstanding Amount
2004 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$18.9 million due in annual installments of \$570,000 to \$1,450,000, through July 1, 2024; with interest ranging from 4.17% to 5.28%	16,480,000
2004 serial bonds for the acquisition of various capital assets with an original amount of \$2.0 million due in annual installments of \$365,000 to \$445,000, through July 1, 2009; with interest ranging from 4.17% to 4.38%	445,000
2004 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$10.1 million due in annual installments of \$500,000 to \$870,000, through July 1, 2019; with interest ranging from 3.28% to 4.80%	7,920,000
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%	18,850,000
2003 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$12.8 million due in annual installments of \$415,000 to \$620,000, through July 1, 2028; with interest ranging from 1.61% to 4.00%	10,665,000
2003 general obligation bonds for the acquisition of various capital assets with an original amount of \$3.8 million due in annual installments of \$515,000 to \$565,000, through July 1, 2010; with interest ranging from 1.61% to 4.00%	1,120,000
2001 serial bonds for the construction and improvements of various capital assets with an original amount of \$55.6 million due in annual installments of \$760,000 to \$4,825,000, through July 1, 2026; with interest ranging from 2.70% to 5.60%	48,790,000
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%	5,140,000
2000 serial bonds for the construction and improvements of various capital with an original amount of \$25.4 million due in annual installments of \$970,000 to \$2,680,000, through July 1, 2015; with interest ranging from 2.70% to 7.81%	15,225,000
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%	44,205,000

Description	Outstanding Amount
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%	31,820,000
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%	39,970,000
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%	32,185,000
1998 general obligations bonds for the construction and improvements of various capital assets with an original amount of \$18.3 million due in annual installments of \$350,000 to \$1,605,000, through July 1, 2019; with interest ranging from 4.87% to 6.71%	12,590,000
1996 serial bonds for the construction and improvements of various capital assets with an original amount of \$27.0 million due in annual installments of \$885,000 to \$2,830,000, through July 1, 2011; with interest ranging from 4.70% to 6.63%	7,875,000
1996 general obligations bonds for the construction and improvements of various capital assets with an original amount of \$10.2 million due in annual installments of \$420,000 to \$1,150,000, through July 1, 2009; with interest ranging from 4.87% to 6.75%	<u>1,150,000</u>
Total	<u>\$389,682,000</u>

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

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

According to sections 103 and 148 to 150 of the U.S. Internal Revenue Code and sections 1.148 to 1.150 of the U.S. Treasury Regulation, the Municipality's the tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2008, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

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

Year ending June 30,	Principal	Interest
2009	\$ 32,769,000	\$ 22,707,973
2010	33,307,000	21,003,395
2011	34,988,000	19,110,679
2012	32,271,000	17,091,579
2013	33,386,000	15,240,253
2014 – 2018	115,400,000	51,443,617
2019 – 2023	53,104,000	26,553,417
2024 – 2028	42,056,000	10,810,775
2029 – 2032	12,401,000	2,100,563
Total	<u>\$ 389,682,000</u>	<u>\$ 186,062,251</u>

C. Mortgage Payable

The mortgage loan payable with an original amount of \$7.0 million to the federal government bears interest at 8.5% and is secured by the Federal Housing Administration and by a first mortgage on rental property. Principal and interest are payable from the proceeds of the rent collected from the tenants. The Federal government provides housing assistance payments to qualified tenants to subsidize most of the monthly rent. This housing project is administered by a private entity.

Aggregate annual maturities of the mortgage payable are as follows:

Year ending June 30,	Principal	Interest
2009	\$ 287,639	\$ 395,062
2010	313,065	369,637
2011	340,736	341,965
2012	370,854	311,847
2013	403,633	279,067
2014 – 2018	2,620,736	792,770
2019	440,945	14,170
Total	<u>\$ 4,777,608</u>	<u>\$ 2,504,518</u>

D. Notes Payable

During September 2002, the Municipality entered into a repayment agreement with the GDB and CRIM to repay a debt of \$27.4 million. The principal and interest payments are due on July 1 of each year through July 1, 2032. The outstanding balance as of June 30, 2008 approximates \$25.1 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% (6.61% at June 30, 2008) 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, 2008 approximates \$36.9 million. This note will be repaid from unrestricted property tax revenues.

During May 2005, the Municipality issued a note payable to GDB for approximately \$17.3 million. The note is payable in annual installments ranging from \$1.4 to \$2.1 million through July 2014 and bears interest at 1.25% over 90-day LIBOR with a minimum of 5% and maximum of 12% (6.61% at June 30, 2008). The outstanding balance as of June 30, 2008 approximates \$11.3 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 (6.61% at June 30, 2008). The outstanding balance as of June 30, 2008 approximates \$29.7 million. The proceeds of the note were used principally to pay debt incurred in prior years. This note will be repaid from unrestricted property tax revenues.

During January 2008, the Municipality issued a special obligation note (SON-A) for \$36.1 million. The SON 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% (6.61% at June 30, 2008). The proceeds of the SON were used principally to infrastructure capital outlays. The outstanding balance as of June 30, 2008 approximates \$36.1 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 is payable in annual installments through July 2032 ranging from \$.06 to \$3.1 million and will bear interest at 90-day LIBOR plus 1.25 percent with a minimum of 5% and maximum of 12% (6.61% at June 30, 2008). The proceeds of the SON were used principally to the construction of various capital assets. The outstanding balance as of June 30, 2008 approximates \$37.1 million. The SON-B will be repaid through sales tax revenues pledge and account for in the Municipality Redemption Fund.

In addition, the Municipality entered into a loan agreement with the US Department of Housing and Urban Development under a Variable Rate Note Guarantee pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended. The note was issued to finance the future acquisition and construction of major capital facilities, and allows borrowings up to a maximum of \$72,515,000. The borrowings have an outstanding balance of approximately \$67.0 million and are payable in annual installments ranging from \$2.7 to \$6.3 million, mature at various dates through July 2022 and bear interest at 0.2% over 90-day LIBOR (5.38% at June 30, 2008). This loan agreement will be repaid from future grant awards received from the Community Development Block Grants (CDBG) program.

The maturities of notes payable are as follows:

Year ending June 30,	Principal	Interest
2009	\$12,460,971	\$15,534,434
2010	13,205,675	13,656,932
2011	14,005,436	12,866,777
2012	14,835,556	12,014,746
2013	15,751,355	11,108,273
2014 – 2018	51,679,496	43,733,247
2019 – 2023	56,840,732	29,328,558
2024 – 2028	38,688,749	15,567,037
2029 – 2032	25,818,692	3,703,895
Total	<u>\$ 243,286,662</u>	<u>\$ 157,513,899</u>

E. Obligations Under Capital Leases

The Municipality has entered into various capital lease agreements to finance the acquisition of equipment mainly related to the implementation of information systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. At June 30, 2008, the capitalized asset amounting to approximately \$5.4 million, net of accumulated depreciation of \$4.6 million is recognized as equipment in the statement of net assets.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

Year ending June 30,	Amount
2009	\$ 637,752
2010	28,369
Total minimum lease payments	<u>666,121</u>
Less: amount representing interest (ranging from 1.66% to 7.40%)	9,499
Present value of minimum lease payments	<u>\$ 656,622</u>

F. Compensated Absences

The government-wide statement of net assets includes approximately \$19.7 million, \$12.1 million and \$2.4 million of accrued vacation benefits, accrued sick leave benefits and payroll related benefits, respectively, representing the Municipality's commitment to fund such costs from future operations.

G. Net Pension Obligation

The amount reported as net pension obligation of approximately \$79.1 million represents the amount owed by the Municipality for the unfunded required pension contribution to the pension plan and the unfunded cost for the early voluntary retirement termination benefit described in Notes 12 and 13, respectively. The net pension obligation has been recorded as a liability in governmental activities in the accompanying statement of net assets.

H. Landfill Obligation

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In December 2000, the Municipality's landfill facilities were closed. Based on current costs, the preliminary annual estimate of postclosure costs has been assessed to be approximately \$900,000 for a period of approximately 22 years. The balance of postclosure costs of \$19.8 million is reported in the statement of net assets. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations.

I. Other Liabilities

Other liabilities represent a reserve of \$3.6 million for possible claims arising from federal cost disallowances as a result of prior audits of federal financed program, \$5.8 million in connection with a project to establish a land information management system and \$2.9 million in other miscellaneous liabilities.

12. Pension Plan

Employees of the Municipality participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System"). The System is cost-sharing multi-employer defined benefit pension plan sponsored by the Commonwealth of Puerto Rico under the terms of Act No. 447 of 1951, as amended (Act No. 447). Participation is mandatory for regular employees. The System issues a publicly available financial report that includes its financial statements and required supplementary information.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average salary, as defined, or if they have attained 55 years of age will receive up to a maximum of 75% of the average salary, as defined. Disability retirement benefits are available to members for occupational and non-occupational disability up to a maximum benefit of 50% of the average salary, as defined. However, for non-occupational disability, a member must have at least 10 years of creditable service.

Act No. 1 of 1990 made certain amendments applicable to new participants joining the System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average salary, as defined, for all years of creditable service, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average salary, as defined, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% or 8.275% of their monthly gross salary. The Municipality is required by Act No. 447 to contribute 9.275% of its employees' gross salaries.

On September 24, 1999, an amendment to Act No. 447, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employees' salary) will be used to fund the current plan.

System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

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

Funding Policy

Contribution requirements are established by law and are as follows:

Municipality	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

Total employee contributions to the above-mentioned plans during the year ended June 30, 2008 amounted to approximately \$9.2 million. The Municipality's contributions during the years ended June 30, 2008, 2007 and 2006 amounted to approximately \$10.5 million, \$11.9 million, and \$13.0 million, respectively. These amounts represented 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

Additional information on the System is provided in its financial statements for the year ended June 30, 2008, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, PO Box 42003, San Juan, PR 00940-2003.

Annual Pension Cost

The Municipality recommended contribution, pension cost and decrease in net pension obligation for the year ended June 30, 2008, is as follows:

	Amount
Annual required contribution and pension cost	\$ 10,494,001
Employer contributions made	<u>(13,270,552)</u>
Decrease in net pension obligation	(2,776,551)
Net pension obligation, beginning of year	<u>8,543,234</u>
Net pension obligation, end of year	<u>\$ 5,766,683</u>

13. Early Retirement Plan

In addition to the pension benefits described above, the Municipality offered a voluntary early retirement program (the Program) in accordance to Municipal Resolution No. 41, Series 2006-2007. This Program was offered to employees who currently participate in the System and had completed 25 years of creditable service. All eligible employees must have notified the Municipality on or before November 21, 2006 of their intention to retire on December 31, 2006. The retirees will receive the full benefit of 75% of their average salary, as described in Note 12 of these financial statements. Nine hundred fifty-four (954) employees elected to participate in the Program.

The cost of the Program was approximately \$117.9 million which is the difference between the present value of the accelerated benefits of the Program and the present value of the benefits under the terms of Act No. 447 of 1951. Under the accrual basis of accounting, a liability and expense of \$117.9 million was recognized on the statement of net assets and statement of activities, respectively. Under the modified

accrual basis of accounting, the expenditure will be recognized, in the fund statements, when the liability is expected to be liquidated with expendable available financial resources.

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

Year ending June 30,	Annual Pension Cost	Percentage Required Contribution	Actual Pension Contribution	Net Pension Obligation
2007	\$ 26,984,049	22.5%	\$ 26,984,049	\$ -
2008	17,598,293	15.0%	17,598,293	-
2009	-	0.0%	-	-
2010	28,157,269	24.0%	-	28,157,269
2011	23,464,391	20.0%	-	23,464,391
2012	21,704,561	18.5%	-	21,704,561
	<u>\$ 117,908,563</u>	<u>100.0%</u>	<u>\$ 44,582,342</u>	<u>\$ 73,326,221</u>

The Municipality has made its required contribution to the Program for the year ended June 30, 2008.

14. Net Assets

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

	Amount
Capital assets, net of accumulated depreciation	\$ 593,445,716
Outstanding balance on capital related debt	(570,972,618)
Unspent capital debt proceeds	180,936,971
Total invested in capital assets, net of related debt	<u>\$ 203,410,069</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 Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The Municipality maintains a claims-made policy since October 15, 1990 for the purpose of providing professional and patient care liability insurance with liability limits of \$300,000 for each medical incident and \$2 million for aggregate incidents. The Municipality also obtained tail insurance coverage for incidents incurred but not reported prior to October 14, 1990.

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 year ended June 30, 2008, amounted to approximately \$5.3 million and \$1.9 million, respectively. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

B. Construction

The Municipality had commitments at June 30, 2008 of approximately \$149.8 million for the construction, improvements, or renovation of several municipal facilities.

C. Other commitments

At June 30, 2008, the nonmajor miscellaneous special revenue funds, had a deficit of \$3.2 million which will be covered with future budgetary appropriations of the general fund, if necessary.

17. Contingencies

A. Losses

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

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$5.5 million at June 30, 2008, for possible anticipated unfavorable judgments. These amounts were included in the financial statements and represent the amounts estimated as probable liabilities, which may require future available financial resources for its payment. The changes in the reserve for claim and judgments for the last two fiscal years are as follows:

	2008	2007
Balance as of July 1	\$ 5,500,000	\$ 5,500,000
Add: Provision for claims and judgments	2,272,095	-
Less: Payments of claims and judgments	<u>(2,272,095)</u>	<u>-</u>
Balance as of June 30	<u>\$ 5,500,000</u>	<u>\$ 5,500,000</u>

It is management's opinion, based on the advice of legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial position, results of operations and cash flows condition of the Municipality. The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133" for the year ended June 30, 2008, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors. As described in Note 11, the accompanying statement of net assets includes a reserve of \$3.6 million for possible federal cost disallowances related to questioned costs and claims from federal and state grantors.

B. Gains

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

With respect to pending and threatened litigation, the Municipality has not reported any receivables at June 30, 2008, for anticipated favorable judgments of approximately \$75 million. Although this amount was not included in the financial statements, the amount estimated as a probable receivable would represent future available financial resources for expenditures.

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

18. Subsequent Events

During September 2008, the Municipality issued a general obligation bond of \$4.7 million for capital improvements. The bond will be due in annual installment through July 2023 and will bear interest at 90-day LIBOR plus 1.25 percent.

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REQUIRED SUPPLEMENTARY INFORMATION



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	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 155,945,095	\$ 155,945,095	\$ 156,376,013	\$ 430,918
Municipal license tax	145,000,000	145,000,000	148,555,527	3,555,527
Sales Tax	51,500,000	51,500,000	49,215,687	(2,284,313)
Construction and other local taxes	20,500,000	20,500,000	47,888,561	27,388,561
Licenses and permits	534,000	534,000	410,893	(123,107)
Charges for services	43,244,945	43,244,945	43,416,016	171,071
Fines and forfeitures	5,325,000	5,325,000	4,388,393	(936,607)
Interest	6,000,000	6,000,000	6,399,374	399,374
Intergovernmental – local	26,963,515	26,963,515	27,201,989	238,474
Other	9,387,445	9,387,445	25,154,414	15,766,969
Transfers from other funds	-	-	4,549,860	4,549,860
Total revenues	<u>464,400,000</u>	<u>464,400,000</u>	<u>513,556,727</u>	<u>49,156,727</u>
EXPENDITURES:				
Current:				
General government	136,940,986	122,040,131	134,732,336	(12,692,205)
Public safety	46,373,864	47,334,622	50,982,430	(3,647,808)
Public works	54,611,719	62,048,134	67,834,171	(5,786,037)
Culture and recreation	8,713,947	10,777,027	11,211,835	(434,808)
Health and welfare	192,721,197	198,149,425	200,866,846	(2,717,421)
Urban development	8,174,053	6,334,512	6,720,538	(386,026)
Economic development	9,668,459	10,510,692	10,609,339	(98,647)
Education	7,195,775	7,205,457	6,606,104	599,353
Transfers to other funds	-	-	1,199,042	(1,199,042)
Total expenditures	<u>464,400,000</u>	<u>464,400,000</u>	<u>490,762,641</u>	<u>(26,362,641)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,794,086</u>	<u>\$ 22,794,086</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 513,556,727
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes				(4,549,860)
The proceeds from the issuance of long-term debt are budgetary resources but are regarded as				
Other Financing Sources for financial reporting purposes				(19,995,000)
Special general fund revenue				5,999,216
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 495,011,083</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 490,762,641
Differences - budget to GAAP:				
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes				(1,199,042)
Prior year encumbrances recorded as current year expenditures for GAAP basis				24,243,844
Prior year encumbrances written off due to statutory limitations				(7,527,042)
Special general fund expenditure				2,848,970
Current year provision of allowance for bad debt recorded as expenditures for GAAP basis				21,000,000
Current year encumbrances recorded as expenditures for budgetary purposes				(22,292,866)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 507,836,505</u>

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

1. **Stewardship, Compliance and Accountability**

A. Budgetary Control

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

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. 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, 2008 representing the original budget. There were not supplemental appropriations for the year ended June 30, 2008.

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COMBINING FINANCIAL STATEMENTS



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SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

CAPITAL PROJECT FUNDS

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

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

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

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

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

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

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

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

2008 Bond Issue Funds – These funds account for 2008 bond issues for the construction or acquisitions of capital assets and equipments.

2008 SON 766 A – This fund accounts for 2008 special obligation note of \$36.1 million issues for the construction or acquisitions of capital assets.

2008 SON 766 B – This fund accounts for 2008 special obligation note of \$37.1 million issues for the construction or acquisitions of capital assets.

Loan Guarantee Fund – This fund accounts for the loan agreement with the US Department of Housing and Urban Development under a variable rate note guaranteed pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended, for the construction and improvements of capital assets.

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

As of June 30, 2008

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Nonmajor Governmental Funds
ASSETS			
Cash	\$ 23,380,344	\$ 27,584,248	\$ 50,964,592
Cash with fiscal agent	1,301,944	153,352,723	154,654,667
Accounts receivable - intergovernmental	18,928,613	-	18,928,613
Accounts receivable - other	540,030	-	540,030
Due from other fund	-	466,011	466,011
Inventories	47,335	-	47,335
Restricted cash	3,382,386	-	3,382,386
Total assets	\$ 47,580,652	\$ 181,402,982	\$ 228,983,634
LIABILITIES AND FUND BALANCES (DEFICIT)			
Liabilities:			
Accounts payable and accrued liabilities	\$ 4,123,062	\$ 18,551,039	\$ 22,674,101
Intergovernmental payables	185,689	85,700	271,389
Due to other fund	32,114,555	12,968,455	45,083,010
Deferred revenues	11,145,592	-	11,145,592
Total liabilities	47,568,898	31,605,194	79,174,092
Fund balances (deficit):			
Reserved for inventories	47,335	-	47,335
Reserved for capital projects	-	149,797,788	149,797,788
Unreserved in Special Revenue Funds	(35,581)	-	(35,581)
Total fund balances (deficit)	11,754	149,797,788	149,809,542
Total liabilities and fund balances (deficit)	\$ 47,580,652	\$ 181,402,982	\$ 228,983,634

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

	Department of Justice Funds	Department of Labor Funds	Health & Human Services Funds	Housing & Urban Development Funds
ASSETS				
Cash	\$ 168,829	\$ -	\$ 4,808,992	\$ 15,737,371
Cash with fiscal agent	-	1,301,944	-	-
Accounts receivable - intergovernmental	889,856	582,307	13,677,591	2,382,084
Accounts receivable - other	-	5,057	110,743	269,722
Inventories	-	-	47,335	-
Restricted cash	-	-	-	-
Total assets	<u>\$ 1,058,685</u>	<u>\$ 1,889,308</u>	<u>\$ 18,644,661</u>	<u>\$ 18,389,177</u>
LIABILITIES AND FUND BALANCES (DEFICIT)				
Liabilities:				
Accounts payable and accrued liabilities	\$ 55,772	\$ 219,765	\$ 1,339,859	\$ 1,888,925
Intergovernmental payables	-	19,491	63,453	102,667
Due to other fund	449,310	1,650,052	15,218,502	8,783,251
Deferred revenues	553,603	-	2,022,847	7,614,334
Total liabilities	<u>1,058,685</u>	<u>1,889,308</u>	<u>18,644,661</u>	<u>18,389,177</u>
Fund balances (deficit):				
Reserved for inventories	-	-	47,335	-
Unreserved in Special Revenue Funds	-	-	(47,335)	-
Total fund balances (deficit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances (deficit)	<u>\$ 1,058,685</u>	<u>\$ 1,889,308</u>	<u>\$ 18,644,661</u>	<u>\$ 18,389,177</u>

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

Miscellaneous Special Revenue Funds	Comunidad de Retiro	Total Menor Special Revenues Funds
---	------------------------	--

\$ 2,640,866	\$ 24,286	\$ 23,380,344
-	-	1,301,944
1,396,775	-	18,928,613
25,093	129,415	540,030
-	-	47,335
-	3,382,386	3,382,386
<u>\$ 4,062,734</u>	<u>\$ 3,536,087</u>	<u>\$ 47,580,652</u>

\$ 343,924	\$ 274,817	\$ 4,123,062
78	-	185,689
6,013,440	-	32,114,555
954,808	-	11,145,592
<u>7,312,250</u>	<u>274,817</u>	<u>47,568,898</u>

-	-	47,335
(3,249,516)	3,261,270	(35,581)
<u>(3,249,516)</u>	<u>3,261,270</u>	<u>11,754</u>
<u>\$ 4,062,734</u>	<u>\$ 3,536,087</u>	<u>\$ 47,580,652</u>

	Joint Resolution Funds	Citizen Participation Funds	Various Bond Issue Funds	2004 Bond Issue Funds	2005 Bond Issue Funds
ASSETS					
Cash	\$ 14,928,277	\$ 227,429	\$ -	\$ -	\$ -
Cash with fiscal agent	-	-	33,136,192	1,078,800	2,966,264
Accounts receivable - intergovernmental	-	-	-	-	-
Accounts receivable - other	-	-	-	-	-
Due from other fund	-	217,433	-	186,649	26,487
Total assets	<u>\$ 14,928,277</u>	<u>\$ 444,862</u>	<u>\$ 33,136,192</u>	<u>\$ 1,265,449</u>	<u>\$ 2,992,751</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 867,432	\$ 93,612	\$ 11,397,184	\$ 506,274	\$ 78,262
Intergovernmental payables	15,000	-	70,700	-	-
Due to other fund	5,083,533	-	811,754	-	-
Deferred revenues	-	-	-	-	-
Total liabilities	<u>5,965,965</u>	<u>93,612</u>	<u>12,279,638</u>	<u>506,274</u>	<u>78,262</u>
Fund balances:					
Reserved for capital projects	<u>8,962,312</u>	<u>351,250</u>	<u>20,856,554</u>	<u>759,175</u>	<u>2,914,489</u>
Total fund balances	<u>8,962,312</u>	<u>351,250</u>	<u>20,856,554</u>	<u>759,175</u>	<u>2,914,489</u>
Total liabilities and fund balances	<u>\$ 14,928,277</u>	<u>\$ 444,862</u>	<u>\$33,136,192</u>	<u>\$ 1,265,449</u>	<u>\$ 2,992,751</u>

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

2006 Bond Issue Funds	2007 Bond Issue Funds	2008 Bond Issue Funds	2008 SON 766-A Fund	2008 SON 766-B Fund	Loan Guarantee Fund	Total Nonmajor Capital Project Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$12,428,542	\$ 27,584,248
16,459,410	14,032,925	15,067,966	35,388,789	35,222,377	-	153,352,723
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	35,442	466,011
<u>\$ 16,459,410</u>	<u>\$ 14,032,925</u>	<u>\$15,067,966</u>	<u>\$35,388,789</u>	<u>\$ 35,222,377</u>	<u>\$12,463,984</u>	<u>\$ 181,402,982</u>
\$ 754,496	\$ 297,883	\$ -	\$ 858,123	\$ -	\$ 3,697,773	\$ 18,551,039
-	-	-	-	-	-	85,700
2,144,075	2,547,943	960,995	1,217,081	203,074	-	12,968,455
-	-	-	-	-	-	-
<u>2,898,571</u>	<u>2,845,826</u>	<u>960,995</u>	<u>2,075,204</u>	<u>203,074</u>	<u>3,697,773</u>	<u>31,605,194</u>
<u>13,560,839</u>	<u>11,187,099</u>	<u>14,106,971</u>	<u>33,313,585</u>	<u>35,019,303</u>	<u>8,766,211</u>	<u>149,797,788</u>
<u>13,560,839</u>	<u>11,187,099</u>	<u>14,106,971</u>	<u>33,313,585</u>	<u>35,019,303</u>	<u>8,766,211</u>	<u>149,797,788</u>
<u>\$ 16,459,410</u>	<u>\$ 14,032,925</u>	<u>\$15,067,966</u>	<u>\$35,388,789</u>	<u>\$ 35,222,377</u>	<u>\$12,463,984</u>	<u>\$ 181,402,982</u>

MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES:			
Charges for services	\$ 2,159,796	\$ -	\$ 2,159,796
Interest	267,218	-	267,218
Intergovernmental Federal	109,857,120	-	109,857,120
Intergovernmental Local	-	8,942,061	8,942,061
Other	1,927,835	1,131,628	3,059,463
Total revenues	<u>114,211,969</u>	<u>10,073,689</u>	<u>124,285,658</u>
EXPENDITURES:			
Current:			
General government	8,619,590	768,519	9,388,109
Public safety	1,960,915	836,708	2,797,623
Public works	45,000	2,341,107	2,386,107
Culture and recreation	866,847	1,591,913	2,458,760
Health and welfare	48,132,939	2,421,294	50,554,233
Urban development	38,047,269	347,584	38,394,853
Economic development	6,018,616	2,714,078	8,732,694
Education	3,370,055	499,070	3,869,125
Capital outlays	560,051	38,130,355	38,690,406
Debt service:			
Principal	3,094,280	-	3,094,280
Interest and other charges	3,416,320	-	3,416,320
Total expenditures	<u>114,131,882</u>	<u>49,650,628</u>	<u>163,782,510</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>80,087</u>	<u>(39,576,939)</u>	<u>(39,496,852)</u>
OTHER FINANCING SOURCES:			
Transfer in	1,199,042	-	1,199,042
Bonds issued	-	88,805,000	88,805,000
Total other financing sources	<u>1,199,042</u>	<u>88,805,000</u>	<u>90,004,042</u>
NET CHANGES IN FUND BALANCES (DEFICIT)	<u>1,279,129</u>	<u>49,228,061</u>	<u>50,507,190</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(1,267,375)</u>	<u>100,569,727</u>	<u>99,302,352</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 11,754</u>	<u>\$ 149,797,788</u>	<u>\$ 149,809,542</u>

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

MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2008

	Department of Justice Funds	Department of Labor Funds	Health & Human Services Funds	Housing & Urban Development Funds
REVENUES:				
Charges for services	\$ -	\$ -	\$ -	\$ -
Interest	272	-	-	267,732
Intergovernmental Federal	1,452,879	5,234,468	48,425,431	46,405,248
Intergovernmental Local	-	-	-	-
Other	19	-	-	1,927,816
Total revenues	<u>1,453,170</u>	<u>5,234,468</u>	<u>48,425,431</u>	<u>48,600,796</u>
EXPENDITURES:				
Current:				
General government	1,724	-	8,017,546	600,320
Public safety	1,366,143	-	668	141,566
Public works	-	-	-	45,000
Culture and recreation	-	-	-	852,212
Health and welfare	85,303	2,643	41,505,734	2,625,536
Urban development	-	-	-	36,022,209
Economic development	-	5,230,758	-	787,858
Education	-	1,067	100,525	-
Capital outlays	-	-	-	333,247
Debt service:				
Principal	-	-	-	2,830,000
Interest and other charges	-	-	-	3,416,320
Total expenditures	<u>1,453,170</u>	<u>5,234,468</u>	<u>49,624,473</u>	<u>47,654,268</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>(1,199,042)</u>	<u>946,528</u>
OTHER FINANCING SOURCES:				
Transfer in	-	-	1,199,042	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>1,199,042</u>	<u>-</u>
NET CHANGES IN FUND BALANCES (DEFICIT)	<u>-</u>	<u>-</u>	<u>-</u>	<u>946,528</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>(946,528)</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

(Continued)

MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -
NONMAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2008

	Miscellaneous Special Revenue Funds	Comunidad de Retiro	Total Nonmajor Special Revenue Funds
REVENUES:			
Charges for services	\$ -	\$ 2,159,796	\$ 2,159,796
Interest	(786)	-	267,218
Intergovernmental Federal	8,339,094	-	109,857,120
Intergovernmental Local	-	-	-
Other	-	-	1,927,835
Total revenues	<u>8,338,308</u>	<u>2,159,796</u>	<u>114,211,969</u>
EXPENDITURES:			
Current:			
General government	-	-	8,619,590
Public safety	452,538	-	1,960,915
Public works	-	-	45,000
Culture and recreation	14,635	-	866,847
Health and welfare	3,913,723	-	48,132,939
Urban development	87,822	1,937,238	38,047,269
Economic development	-	-	6,018,616
Education	3,268,463	-	3,370,055
Capital outlays	114,910	111,894	560,051
Debt service:			
Principal	-	264,280	3,094,280
Interest and other charges	-	-	3,416,320
Total expenditures	<u>7,852,091</u>	<u>2,313,412</u>	<u>114,131,882</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>486,217</u>	<u>(153,616)</u>	<u>80,087</u>
OTHER FINANCING SOURCES:			
Transfer in	-	-	1,199,042
Total other financing sources	-	-	1,199,042
NET CHANGES IN FUND BALANCES (DEFICIT)	486,217	(153,616)	1,279,129
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(3,735,733)</u>	<u>3,414,886</u>	<u>(1,267,375)</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (3,249,516)</u>	<u>\$ 3,261,270</u>	<u>\$ 11,754</u>

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

MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -
NONMAJOR CAPITAL PROJECTS FUNDS
For the Fiscal Year Ended 30, 2008

	Joint Resolution Funds	Citizen Participation Funds	Various Bond Issue Funds	2004 Bond Issue Funds
REVENUES:				
Charges for services	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Intergovernmental Federal	-	-	-	-
Intergovernmental Local	8,942,061	-	-	-
Other	-	-	753,052	35,884
Total revenues	<u>8,942,061</u>	<u>-</u>	<u>753,052</u>	<u>35,884</u>
EXPENDITURES:				
Current:				
General government	35,000	-	130,396	87,825
Public safety	4,523	-	57,631	135,124
Public works	172,811	-	91,629	73,369
Culture and recreation	276,623	-	73,970	6,097
Health and welfare	105,869	797,404	202,579	9,785
Urban development	-	-	155,366	13,557
Economic development	-	-	1,809,697	-
Education	-	-	-	-
Capital outlays	3,969,796	259,299	3,976,501	-
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>4,564,622</u>	<u>1,056,703</u>	<u>6,497,769</u>	<u>325,757</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>4,377,439</u>	<u>(1,056,703)</u>	<u>(5,744,717)</u>	<u>(289,873)</u>
OTHER FINANCING SOURCES:				
Bonds issued	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES (DEFICIT)	<u>4,377,439</u>	<u>(1,056,703)</u>	<u>(5,744,717)</u>	<u>(289,873)</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>4,584,873</u>	<u>1,407,953</u>	<u>26,601,271</u>	<u>1,049,048</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 8,962,312</u>	<u>\$ 351,250</u>	<u>\$ 20,856,554</u>	<u>\$ 759,175</u>

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

(Continued)

MUNICIPALITY OF SAN JUAN,
CAPITAL CITY OF PUERTO RICO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -
NONMAJOR CAPITAL PROJECT FUNDS
For the Fiscal Year Ended June 30, 2008

	2005 Bond Issue Funds	2006 Bond Issue Funds	2007 Bond Issue Funds	2008 Bond Issue Funds
REVENUES:				
Charges for services	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Intergovernmental Federal	-	-	-	-
Intergovernmental Local	-	-	-	-
Other	142,389	200,303	-	-
Total revenues	<u>142,389</u>	<u>200,303</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
Current:				
General government	-	109,488	217,015	188,097
Public safety	-	324,050	224,023	91,357
Public works	-	251,962	1,740,109	-
Culture and recreation	-	141,900	737,617	50,025
Health and welfare	-	59,512	1,246,145	-
Urban development	77,915	79,202	21,544	-
Economic development	-	-	413,291	491,090
Education	-	413,211	85,859	-
Capital outlays	1,080,299	7,343,449	6,095,759	652,460
Debt service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>1,158,214</u>	<u>8,722,774</u>	<u>10,781,362</u>	<u>1,473,029</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,015,825)</u>	<u>(8,522,471)</u>	<u>(10,781,362)</u>	<u>(1,473,029)</u>
OTHER FINANCING SOURCES:				
Bonds issued	-	-	-	15,580,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,580,000</u>
NET CHANGES IN FUND BALANCES (DEFICIT)	<u>(1,015,825)</u>	<u>(8,522,471)</u>	<u>(10,781,362)</u>	<u>14,106,971</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>3,930,314</u>	<u>22,083,310</u>	<u>21,968,461</u>	<u>-</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 2,914,489</u>	<u>\$ 13,560,839</u>	<u>\$ 11,187,099</u>	<u>\$ 14,106,971</u>

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

2008 SON 766-A Fund	2008 SON 766-B Fund	Loan Guarantee Fund	Total Nonmajor Capital Project Funds
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	8,942,061
-	-	-	1,131,628
<u>-</u>	<u>-</u>	<u>-</u>	<u>10,073,689</u>
349	349	-	768,519
-	-	-	836,708
-	11,227	-	2,341,107
-	-	305,681	1,591,913
-	-	-	2,421,294
-	-	-	347,584
-	-	-	2,714,078
-	-	-	499,070
2,801,066	2,079,121	9,872,605	38,130,355
-	-	-	-
-	-	-	-
<u>2,801,415</u>	<u>2,090,697</u>	<u>10,178,286</u>	<u>49,650,628</u>
<u>(2,801,415)</u>	<u>(2,090,697)</u>	<u>(10,178,286)</u>	<u>(39,576,939)</u>
<u>36,115,000</u>	<u>37,110,000</u>	<u>-</u>	<u>88,805,000</u>
<u>36,115,000</u>	<u>37,110,000</u>	<u>-</u>	<u>88,805,000</u>
33,313,585	35,019,303	(10,178,286)	49,228,061
-	-	18,944,497	100,569,727
<u>\$ 33,313,585</u>	<u>\$ 35,019,303</u>	<u>\$ 8,766,211</u>	<u>\$ 149,797,788</u>

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

PART II

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2008, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 19, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Comunidad del Retiro, as described in our report on the Municipality's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control. We consider the deficiencies 08-01 to 08-04 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies previously mentioned, we consider items 08-01 and 08-04 to be material weaknesses.

Compliance and Other Matters

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

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

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

December 19, 2008

Aguino, De Cordova, Alfaro & Co. LLP

Stamp number 2402790
has been affixed to the
original report

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

PART III

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

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

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

Compliance

We have audited the compliance of the Municipality of San Juan, Puerto Rico (the "Municipality"), with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements, applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit. Other auditors audited the financial statements of Comunidad del Retiro, as described in our report on the Municipality's financial statements. This report does not include the results of the other auditors testing of compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 that are reported separately by those auditors.

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

As described in items 08-05 to 08-13 in the accompanying schedule of findings and questioned costs, the Municipality did not comply with the following requirements:

<u>Compliance Requirement</u>	<u>CFDA #</u>	<u>Major Program</u>	<u>Reference Number</u>
Allowable cost/ cost Principle		All federal programs	08-05
Cash Management	93.569	Community Service Block Grant	08-12
Davis Bacon Act	14.218	Community Development Block Grant/ Entitlement Grants	08-13
Elegibility	14.871	Section 8 Housing Choice Vouchers	08-06
Reporting	14.241 17.258, 17.259,17.260	Housing Opportunities for Persons with AIDS Workforce Investment Act	08-08 08-11
Earmarking	17.258, 17.259,17.260	Workforce Investment Act	08-10
Subrecipient Monitoring	14.241	Housing Opportunities for Persons with AIDS	08-09

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

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

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

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or

detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 8-06, 08-07 to 08-09, 08-11 to 08-13 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 08-05 and 08-10 to be material weaknesses.

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

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

March 25, 2009

Stamp number 2402791
has been affixed to the
original report

Aguino, De Cordova, Alfaro & Co. LLP

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

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MUNICIPALITY OF SAN JUAN SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008
PART IV — SUMMARY OF AUDITORS' RESULTS**

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

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

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

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

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

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

PART V

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

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

FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-01

Department

Accounting and Finance

Category

Internal Control

Condition

The Municipality closed its year ended June 30, 2008 with a fund balance deficiency in the general fund of approximately \$19.5 million. In 2008, the Municipality reduced the deficit by approximately \$10.5 million and established a long-term financial plan to amortize the deficit in a period no longer than 40 years.

Criteria

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

Effects

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

Cause

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

Recommendation

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

Views of Responsible Officials

Management agrees.

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

FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-02

Department

Accounting and Finance

Category

Internal Control

Condition

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

Criteria

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

Effects

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

Cause

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

Recommendation

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

Views of Responsible Officials

Management agrees.

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

FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-03

Department

Accounting and Finance

Category

Internal Control

Condition

Inactive and or unnecessary funds and accounts are not closed. The Municipality is maintaining an excessive number of funds and accounts that have been inactive for a long period. The accounting records include various funds and accounts, many of which have been inactive or had insignificant operations during the year ended June 30, 2008.

Criteria

Article 8.007 (b) of the Municipalities' Law establishes that funds should be closed when the fund's objectives have been completed.

Effects

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

Cause

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

Recommendation

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

Views of Responsible Officials

Management agrees.

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

FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-04

Department

Property Management

Category

Internal Control

Condition

Internal control over property management needs to be strengthened. The Municipality's property records are not segregated by fund. According to the existing records, the cost of the property owned by the Municipality is approximately \$757.9 million as of June 30, 2008.

Criteria

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

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

Effects

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

Cause

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

Recommendation

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

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

FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2008

Views of Responsible Officials

Management agrees.

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

PART VI

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

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-05

Federal program

All federal programs

Category

Compliance/Internal Control

Compliance requirement

Allowable costs

Condition

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

Criteria

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

Effects

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

Cause

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

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Questioned Costs

None

Recommendation

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

Views of Responsible Officials

Management agrees.

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-06

Federal program

Section 8 Housing Choice Voucher Program, CFDA #14.871

Category

Compliance / Internal Control

Compliance requirements

Eligibility

Condition

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

In testing compliance and internal control over compliance with the requirement of participants' eligibility, we selected 35 participants who received HAP during FY 2007-08 to ascertain whether participants receiving HAP were eligible to participate in the program.

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

Annual reexamination procedures

- For 1 of the 35 participants (3%), the participant did not provide original information to the Municipality related to annual income documentation. The case was referred to the Municipality's legal department for corresponding actions. Original documents were subsequently obtained that corroborated its annual income.

Criteria

Annual reexamination procedures. 24 CFR 982.516 requires a PHA to conduct a reexamination of family income and composition at least annually. The Municipality's policies and procedures to comply with this requirement include that participants must provide real and accurate information related to annual income.

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

Effects

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

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Cause

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

Questioned Costs

None.

Recommendation

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

Views of Responsible Officials

Management agrees.

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-07

Federal program

Housing Opportunities for Persons with Aids, CFDA # 14.241

Category

Internal Control

Compliance requirements

Reporting

Sub-recipient monitoring

Condition

The Municipality must improve its internal controls over the following compliance requirements reporting and subrecipient monitoring.

In testing compliance and internal controls over compliance for Housing Opportunities for Persons with Aids programs we identified material instances of noncompliance over the abovementioned compliance requirements. The design of the procedures followed by the Program did not provide for the Municipality's personnel to prevent or timely detect these exceptions. For instances of noncompliance noted, refer to the following findings: 08-08 to 08-09.

Criteria

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

Effects

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

Cause

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

Questioned Costs

None

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Recommendation

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

Views of Responsible Officials

Management agrees.

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-08

Federal program

Housing Opportunity for Persons with AIDS, CFDA # 14.241

Category

Internal Control

Compliance requirement

Reporting

Condition

Controls over financial information included in reports submitted to the HUD need to be strengthened. During our tests on compliance and internal control over compliance with the reporting requirement, we noted that the expenditures amount shown on the Financial Summary included within the Consolidated Annual Performance and Evaluation Report ("CAPER") is obtained from the HUD's system Integrated Disbursements and Information System ("IDIS"). However, said data is not reconciled to the Municipality's general ledger. As of June 30, 2008 differences were noted between these two systems.

Criteria

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

Effects

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

Cause

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

Questioned Costs

None

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Recommendation

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

Views of Responsible Officials

Management agrees.

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-09

Federal program

Housing Opportunity for Persons with AIDS, CFDA # 14.241

Category

Compliance / Internal Control

Compliance requirements

Allowable costs
Subrecipient monitoring

Condition

In testing compliance and internal control over compliance with the subrecipients' monitoring requirement, we selected 23 subgrantees and noted the following deficiencies:

Monitoring of funds

- For twenty three (23) of the 23 subrecipients examined (100%), we were not provided with evidence of the agreement between the Municipality and the subgrantee. No evidence was provided that the Municipality made these subrecipients aware of the award information and requirements pertaining to the program. We noted that a contract was prepare for subsequent periods.
- For the 23 subrecipients examined (100%), no formal evidence exists of the review performed over single audit reports received and that such review was made within six months of their receipt, as required by Federal regulations. Total funds awarded to these subrecipients amounted to \$ 2,986,895.
- On a sample of five of the 23 subrecipient the latest single audit reports on file reflected reportable conditions, material weaknesses and/or questioned costs. For 1 of these subrecipients (20%), the Municipality has neither received a corrective action plan nor sanctioned them due to noncompliance with this requirement.

Criteria

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

- *Award Identification.* At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

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

**FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008**

- *Subrecipient Audits* - (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

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

Effects

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

Cause

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

Questioned Costs

None

Recommendation

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

- Single audit reports should be obtained within the required time frame and its corresponding review should be performed and documented on a timely basis. The preparation of a review tool, such as a checklist is advisable. Management decisions resulting from this review should be clearly documented, as well as follow-up activities performed on single audit findings.

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

- Develop and implement policies to ensure that files are adequate and consistent and to ascertain that they include support for conclusions in monitoring reports. Subrecipient files should also include documentation on follow-up procedures performed on corrective action implementation.
- Develop a tracking system that alerts staff of approaching deadlines for reports and corrective action plans. Follow up aggressively to obtain acceptable corrective action plans in a timely manner. Subrecipient tracking documents should be developed and maintained for management decision and audit purposes.
- Review current monitoring guides to ensure that they include steps to obtain reasonable assurance that the subrecipients are complying with applicable Federal regulations. In addition, the Municipality should assign sufficient resources to enable the performance of adequate monitoring of the subrecipients, specifically for the programmatic area.

Views of Responsible Officials

Management agrees.

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-10

Federal program

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

Category

Internal Control/Compliance

Compliance requirements

Earmarking

Condition

Internal control over accounting records needs to be strengthened to ensure compliance with the earmarking compliance requirements. During the performance of the audit we noted that:

The Municipality's accounting records are not segregated according to type of activities (i.e. youth activities), which need to be separately identifiable to ensure that the program complied with the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities and, thus, determine compliance with earmarking requirements.

The Municipality exceeded its administrative cost limits of 10% by 3% or by approximately \$196,000.

	Youth	Adults	Displaced workers	Total	Actual %
Program cost	\$ 1,747,632	\$ 1,938,814	\$ 1,164,385	\$ 4,850,831	87%
Administratives cost	223,282	280,998	230,926	735,206	13%
	<u>\$ 1,970,914</u>	<u>\$ 2,219,812</u>	<u>\$ 1,395,311</u>	<u>\$ 5,586,037</u>	

Criteria

OMB Circular A-102 requires grantees to have financial management systems that maintain effective control and accountability for all grants and subgrants cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. An effective internal control system should have a control structure in place in order to provide reasonable assurance that all disbursements paid with Federal funds are made in compliance with the earmarking and period of availability requirements, and that financial reports submitted to federal awarding agencies are accurate and complete.

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Effects

Lack of controls over these compliance requirements do not reasonably prevent instances of noncompliance with them, or allows for timely detection and correction of exceptions. The Municipality could be exposed to actions from Federal grantors, including disallowance of costs.

Cause

The Municipality does not have adequate internal controls to ensure that earmarking activities and cost limits are in accordance with federal requirements. These situations are mostly caused due to the lack of segregation of the accounting records.

Questioned Costs

\$196,000

Recommendation

The Municipality should ensure that accounts used for recording expenditures of federal programs are adequate for segregation of expenditures to ensure compliance with the program applicable earmarking requirements.

Views of Responsible Officials

Management agrees.

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-11

Federal program

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

Category

Internal Control/ Compliance

Compliance requirements

Reporting

Condition

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

Criteria

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

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

Effects

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

Cause

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

Questioned Costs

None.

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Recommendation

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

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

Views of Responsible Officials

Management agrees.

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-12

Federal program

Community Service Block Grant (CSBG) — CFDA # 93.569

Category

Internal Control/ Compliance

Compliance requirement

Cash Management

Condition

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

Criteria

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

Effects

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

Cause

There are no adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs. The Municipality does not have an efficient payment and disbursement process to suppliers.

Recommendation

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

Questioned costs

None

Views of responsible officials

Management agrees

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

FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE YEAR ENDED JUNE 30, 2008

Finding Number 08-13

Federal program

Community Development Block Grant/Entitlement Grants, CFDA #14.218,

Category

Compliance

Compliance requirements

Davis-Bacon Act

Condition

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

Criteria

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

Effects

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

Cause

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

Questioned Costs

None

Recommendation

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

Views of Responsible Officials

Management agrees.

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

PART VII

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2008
<u>Department of Housing and Urban Development (HUD)</u>		
Section 8 Housing Choice Vouchers	14.871	\$ 17,303,594
Community Development Block Grants/Entitlement Grants	14.218	10,889,946
HOME Investment Partnership Programs	14.239	6,783,921
Housing Opportunities for Persons with AIDS	14.241	7,008,897
Lower Income Housing Assistant Program-Section 8 Moderate Rehabilitation	14.856	3,520,837
Emergency Shelter Grants Program	14.231	554,409
Supportive Housing Program	14.235	1,206,291
Community Development Block Grants/Section 108 Loan Guarantees	14.248	10,178,286
Shelter Plus Care	14.238	386,372
Subtotal		57,832,553
<u>Department of Health and Human Services (HHS)</u>		
Head Start	93.600	25,540,639
HIV Emergency Relief Project Grants	93.914	16,693,223
Substance Abuse and Mental Health Services	93.243	1,002,594
Health Center Grants for Homeless Populations (HCH)	93.151	398,994
Family Planning	93.217	13,455
Pass-through from Commonwealth of Puerto Rico Families and Child Administration-		
Community Services Block Grant	93.569	4,416,760
Pass-through from Commonwealth of Puerto Rico Governor's Office-		
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	1,201,183
Pass-through from Commonwealth of Puerto Rico-WESTAT-		
National Health Institute-WESTAT	93.990	690,201
Pass-through from Commonwealth of Puerto Rico Department of Education-		
Risk Reduction	93.941	229,951
Childhood Immunization Grants	93.268	537,435
Maternal and Child Health Services Block Grant to States	93.994	-
Mental Health Clinical and AIDS Services	93.244	-
Strengthening Families Program	93.556	97
Subtotal		50,724,532

See notes to Schedule of Expenditures of Federal Awards

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2008
<u>Department of Labor (DOL)</u>		
Pass-through from Commonwealth of Puerto Rico Right to Employment Administration-		
Workforce Investment Act (WIA)	17.258	2,355,511
Workforce Investment Act (WIA)	17.259	1,832,064
Workforce Investment Act (WIA)	17.260	1,046,894
Subtotal		<u>5,234,469</u>
<u>Department of Justice (DOJ)</u>		
Public Safety Partnership and Community Policing Grants (COPS)	16.710	821,069
Drug Free Communities Support Programs Grants	16.729	460,261
Gang Resistance Education and Training (GREAT)	16.737	25,974
Community Prosecution Project Safe Neighborhoods	16.609	35,755
U.S. Customs Service (U.S.C.S.)	16.609	49,218
Pass-through from Commonwealth of Puerto Rico Department of Justice:		
Local Law Enforcement Block Grant	16.85	2,250
Crime Victim Assistant	16.575	83,053
Alcohol, Tobacco and Firearms Training Assistance	16.012	47,056
Subtotal		<u>1,524,636</u>
<u>Department of Education (DE)</u>		
Federal Pell Grant Program (PELL)	84.063	2,628,691
TRIO Student Support Services	84.042	255,888
Supplementary Educational Opportunity Grants	84.007	51,743
Minority Science	84.120	149,725
Federal Work-Study Program (FWS)	84.033	55,040
Subtotal		<u>3,141,087</u>

See notes to Schedule of Expenditures of Federal Awards

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
 FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA or Grant Number	Expenditures 2008
<u>Department of Agriculture (USDA)</u>		
Pass-through from Commonwealth of Puerto Rico Department of Education-		
Child and Adult Care Food Program (CACFP)	10.558	1,820,369
Museum for America	45.301	16,206
		<u>1,836,575</u>
<u>Corporation for National and Community Service</u>		
<u>Pass-through from Commonwealth of Puerto Rico Department of Health:</u>		
Foster Grandparent Program	94.011	364,827
Retired and Senior Volunteer Program	94.002	48,095
Subtotal		<u>412,922</u>
<u>Department of Homeland Security</u>		
Emergency Management Performance Grants	97.042	91,766
Homeland Security Grant Program	97.067	398,644
Federal Transit Capital Investment		108,522
Subtotal		<u>598,932</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 121,305,703</u>

See notes to Schedule of Expenditures of Federal Awards

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

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

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

Schedule of expenditures of federal awards	\$ 121,305,703
Comunidad de Retiro	2,313,412
Nonfederal programs included in the special revenue funds	<u>691,053</u>
Total special revenue funds	124,310,168
Capital projects funds	<u>39,472,342</u>
Other governmental funds column in the fund financial statements	<u>\$ 163,782,510</u>

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

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

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

PART VIII

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS



MUNICIPALITY OF SAN JUAN, PUERTO RICO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

Reference Number	Finding Description	Questioned Costs	Status
Accounting and Finance Department			
07-01	Deficit in the Municipality's general fund at June 30, 2007	\$ -	Situation still prevails. Refer to Finding 08-01 and related Corrective Action Plan
07-02	The Municipality is not canceling outstanding checks, which have been outstanding for a period in excess of six months	-	Situation still prevails. Refer to Finding 08-02 and related Corrective Action Plan
07-03	Inactive and unnecessary funds and accounts are not closed.	-	Situation still prevails. Refer to Finding 08-03 and related Corrective Action Plan
07-04	Internal control over property management need to be strengthened.	-	Situation still prevails. Refer to Finding 08-04 and related Corrective Action Plan
All Federal Programs			
07-05	The Municipality does not prepare periodic certifications.	-	Situation still prevails. Refer to Finding 08-05 and related Corrective Action Plan
Section 8 Housing Choice Vouchers			
07-06	The Municipality should improve its collection efforts over its accounts receivable.	-	Corrective Action Plan implemented with positive results.
07-07	The Municipality should improve its internal control over its Section 8 Housing Choice Voucher Program.	-	Corrective Action Plan implemented with positive results.
07-08	The Municipality must improve policies and procedures for determination of participants eligibility.	10,157	Situation still prevails. Refer to Finding 08-06 and related Corrective Action Plan
07-09	The Municipality did not comply with federal requirements regarding housing quality standards inspections.	1,671	Corrective Action Plan implemented with positive results.
07-10	Financial report submitted to HUD did not agree with the accounting records	-	Corrective Action Plan implemented with positive results.
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation			
07-11	The Municipality should improve its internal control over its Lower Income Moderate Rehabilitation Program	-	Corrective Action Plan implemented with positive results.
07-12	The Municipality must improve policies and procedures for determination of participants eligibility.	4,458	Corrective Action Plan implemented with positive results.
07-13	The Municipality did not comply with federal requirements regarding housing quality standards inspections and enforcements.	5,376	Corrective Action Plan implemented with positive results.
07-14	Financial report submitted to HUD did not agree with the accounting records.	-	Corrective Action Plan implemented with positive results.
07-15	The Municipality did not submit the HUD 40118, Annual Progress Report.	-	Corrective Action Plan implemented with positive results.
Housing Opportunities for Persons with AIDS			
07-16	The Municipality must improve its internal control over its Hopwa funds.	-	Situation still prevails. Refer to Finding 08-07 and related Corrective Action Plan
07-17	The Municipality must improve policies and procedures for determination of participants eligibility.	3,352	Corrective Action Plan implemented with positive results.
07-18	The Municipality did not comply with federal requirements regarding housing quality standards inspections and enforcements.	-	Corrective Action Plan implemented with positive results.
07-19	The Municipality does not have adequate internal controls over the valuation of subgrantee proposals and monitoring subrecipients' activities.	-	Situation still prevails. Refer to Finding 08-09 and related Corrective Action Plan
07-20	The Municipality did not comply with federal requirements regarding cash management procedures to subrecipients.	-	Corrective Action Plan implemented with positive results.
Home Investment Program			
07-21	The Municipality did not submit the HUD 60002, Annual Report.	-	Corrective Action Plan implemented with positive results.
Community Development Block Grant/Loan Guarantee Section 108			
07-22	The construction contracts do not include a Davis Bacon Act clause.	-	Situation still prevails. Refer to Finding 08-13 and related Corrective Action Plan
07-23	The Municipality did not submit the HUD 60002, Annual Report.	-	Corrective Action Plan implemented with positive results.
HIV Emergency Relief Project Grants			
07-24	The Municipality must improve its subrecipient monitoring procedures.	-	Corrective Action Plan implemented with positive results.
07-25	The Municipality must improve its cash management activities	-	Corrective Action Plan implemented with positive results.
Head Start Program			
07-26	The Municipality did not comply with federal requirements regarding cash management procedures.	89,081	Corrective Action Plan implemented with positive results.
07-27	Financial report submitted to HUD did not agree with the accounting records	-	Corrective Action Plan implemented with positive results.
CSBG			
07-28	The Municipality did not comply with federal requirements regarding cash management procedures.	-	Situation still prevails. Refer to Finding 08-12 and related Corrective Action Plan
		\$ 114,095	



MUNICIPALITY OF SAN JUAN
Corrective Action Plan
Single Audit Requirements
as of June 30, 2008

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		Expected Target Date
			Management Response and/or Action	Assigned Responsibility	
08-01	Internal Control	Deficit in the Municipality's general fund at June 30, 2008.	<p>During fiscal year 2007-2008, the Municipality reduced the remaining balance recorded in 2006-2007 of \$30 million by \$10.5 million with a current balance of \$19.5 million. With the implementation of our aggressive long term financial plan, we will continue to (1) finish operations with excess of revenues over expenditures; (2) apply the excess of revenues to the accumulated deficit of 2005 which will be applied to the total deficit within a period of 10 years or less; (3) be in compliance with local law which establishes that an outstanding deficit must be amortized in a period no longer than 40 years.</p> <p>As part of the monthly reconciliation process, the Municipality identifies all outstanding checks over six months and adjusts the General Ledger to that effect.</p>	Finance Department	Continuous
08-02	Internal Control	The Municipality is not canceling outstanding checks, which have been outstanding for a period in excess of six months.	<p>Although the bank is responsible of cancelling any check which has not been cleared within six months as is the Municipality's policy, we will increase efforts in order to ensure that the bank complies with this requirement. At this point, we have issued written notice to all banks to have them comply with our required procedures.</p>	Finance Department	Continuous
08-03	Internal Control	Inactive and unnecessary funds and accounts are not closed.	<p>During fiscal year 2007-2008, we initiated investigations of the funds that are inactive which is still in process. As soon as the results are made available, the corresponding adjustments are being processed. Procedures have also been implemented to properly close inactive funds as they arise and establish monthly closing procedures to maintain balances for active grants only.</p>	Finance Department	Continuous
08-04	Internal Control	Internal controls over property management need to be strengthened.	<p>We are in the process of reviewing our financial information system in order to segregate our current property subsidiary into each program fund as required.</p>	Finance Department	Continuous
08-05	Compliance/Internal control	The Municipality does not prepare periodic certifications.	<p>During fiscal year 2008-2009 we established an electronic register in order to identify on a regular basis, the employees that have not been certified.</p> <p>In addition, our Office of Human Resources sent written notifications to all departmental directors as a reminder to</p>	Human Resources Department	JUNE 2009



MUNICIPALITY OF SAN JUAN
Corrective Action Plan
Single Audit Requirements
as of June 30, 2008

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		Expected Target Date
			Management Response and/or Action	Assigned Responsibility	
08-06	Compliance/Internal control	The Municipality does not have adequate controls over participants files related to the eligibility.	comply with certifications for all employees paid with federal funds during the period of each proposal. The Municipality has made substantial progress in improving the management of its Section 8 Program. Unfortunately isolated situations encountered by the auditors are possible and inevitable. To correct the situation the Municipality will reinforce the revision of documents presented by the participants to verify its veracity. The situation identified by the auditors was corrected and corrective actions were taken. After the completion of the due process, the participant's assistance was terminated. As of this date, this case is under the determination of our Legal Department.	Section 8 Housing	JUNE 2009
08-07	Internal Control	The Municipality must improve its internal control over its Hopwa funds.	The Municipality will revise the HOPWA Program Design to implement simple control that improves the internal control of the documents presented by the sub recipient. Regarding the monitoring of sub recipient, the Quality Control Staff will be trained on monitoring methods and preparation of reports.	HOPWA	
08-08	Compliance/Internal control	Controls over financial information included in reports submitted to HUD need to be strengthened.	The information recorded in the general ledger is in accrual basis form. When we process draw downs, the IDIS system records the information in cash basis form. Given the fact, these amounts will never coincide to this respect. In order to insure that the information sent to HUD is correct, the Federal Funds Division of our Finance Department has implemented new procedures in various areas. Concerning this issue, all reports prepared by the officers in charge, will be reconciled with the municipality's finance system and a copy forwarded to our Federal Funds Division for verification and confirmation of the information sent. This will allow the Federal Funds Division to monitor any discrepancies and resolve them accordingly.	HOPWA	JUNE 2009
08-09	Compliance/Internal control	The Municipality does not have adequate internal controls over the valuation of sub grantee proposals and monitoring subrecipients' activities	The Municipality will revise the HOPWA Program Design to implement simple control that improves the internal control of the documents presented by the sub recipient. Regarding the monitoring of sub recipient, the Quality Control Staff will be trained on monitoring methods and preparation of reports.	HOPWA	JUNE 2009
08-10	Compliance/Internal control	The Municipality does not comply with federal requirements	The Federal Funds Division of our Finance Office has instructed our Budget Office to segregate the general ledger	WIA	JUNE 2009



MUNICIPALITY OF SAN JUAN
Corrective Action Plan
Single Audit Requirements
as of June 30, 2008

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		Expected Target Date
			Management Response and/or Action	Assigned Responsibility	
08-11	Compliance/ Internal control	regarding earmarking procedures Financial report submitted to PRHRODC did not agree with the accounting records	accounts of administrative expenses according to the type of activities to insure that the program meets the percentage requirement. The Federal Funds Division of our Finance Department has implemented new procedures in various areas. Concerning this issue, all reports prepared by the officers in charge, will be reconciled with the municipality's finance system and a copy forwarded to our Federal Funds Division for verification and confirmation of the information sent. This will allow the Federal Funds Division to monitor any discrepancies and resolve them accordingly.	WIA	JUNE 2009
08-12	Compliance/ Internal control	The Municipality did not comply with federal requirements regarding cash management procedures	The Federal Funds Division of our Finance Department has implemented new procedures in various areas. Concerning this issue, all reports prepared by the officers in charge, will be reconciled with the municipality's finance system and a copy forwarded to our Federal Funds Division for verification and confirmation of the information sent. This will allow the Federal Funds Division to monitor any discrepancies and resolve them accordingly.	CSBG	JUNE 2009
08-13	Compliance	The construction contracts do not include a Davis Bacon Act clause.	The Municipality has prepared an attachment (Additional Conditions) to be included with all CDBG and Section 108 construction agreements that will require that contractors comply with the requirement of wage determination and the prevailing rates. Specifically clauses 5 and 6 of the Additional Conditions address the deficiencies identified in the Single Audit. This was placed into effect for all contracts originated during fiscal year 2007-2008.	CDBG	Continuous