

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

OMB CIRCULAR A-133 AUDIT

As of and For the Fiscal Year Ended June 30, 2010
and Independent Auditors' Report



THIS PAGE INTENTIONALLY LEFT BLANK

Table of Contents

	Page	
PART I	BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND ADDITIONAL SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2010, AND INDEPENDENT AUDITORS' REPORT	1
PART II	INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON A AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	83
PART III	INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	87
PART IV	SCHEDULE OF FINDINGS AND QUESTIONED COSTS	93
PART V	FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON A AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	97
PART VI	FINDINGS ON INTERNAL CONTROL OVER APPLICABLE TO FEDERAL PROGRAMS	107
PART VII	SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010	113
PART VIII	SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	119

THIS PAGE INTENTIONALLY LEFT BLANK

PART I

**BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND
ADDITIONAL SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED
JUNE 30, 2010, AND INDEPENDENT AUDITORS' REPORT**

THIS PAGE INTENTIONALLY LEFT BLANK



Aquino, De Córdoba, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Richard N. Alfaro, CPA (1951-1998)

Jorge Aquino Barreto, CPA, CVA
Jerry De Córdoba, CPA, JD
Miguel Angel Ortiz, CPA
Eduardo González Green, CPA, CFE

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, 2010, which collectively comprise the Municipality's basic financial statements on pages 19 to 63. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality as of June 30, 2010, 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 March 7, 2011, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison – general fund information on pages 5 through 18 and on pages 67 and 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express and opinion and provide any assurance.

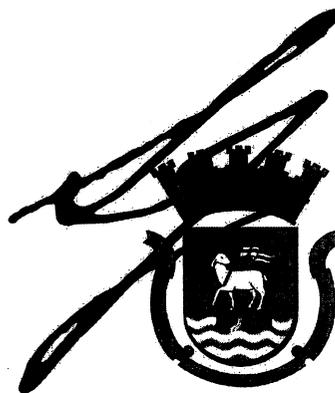
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

March 7, 2011

Aguiño, De Cordova, Affano & Co. LLP

Stamp number 2587902
has been affixed to the
original report

MANAGEMENT'S DISCUSSION & ANALYSIS



THIS PAGE INTENTIONALLY LEFT BLANK

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, 2010.

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 \$13.0 million.
- In the fund financial statements, total revenues increased approximately \$28.8 million (or 4.33%) while total expenditures increased approximately \$6.7 million (or 0.88%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of deficit by \$8,410.
- On a budgetary basis, the General Fund's actual expenditures were approximately \$2.5 million less than actual revenues.
- The Municipality issued bonds and notes amounting to approximately \$63.0 million to finance an early retirement termination benefit, capital improvements and other capital assets.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Infrastructure Assets

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

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

Condensed net asset information is presented below:

**Condensed Statements of Net Assets (in thousands)
As of June 30,**

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Pctg.</u>
ASSETS				
Capital assets	\$ 651,401	\$ 637,280	\$ 14,121	2.2%
Other assets	347,700	357,344	(9,644)	-2.7%
Total assets	999,101	994,624	4,477	0.5%
LIABILITIES				
Current liabilities	245,687	248,266	(2,579)	-1.0%
Noncurrent liabilities	766,753	772,658	(5,905)	-0.8%
Total liabilities	1,012,440	1,020,924	(8,484)	-0.8%
NET ASSETS				
Invested in capital assets, net				
of related debt	252,341	202,598	49,743	24.6%
Restricted for:				
Debt service	25,025	15,147	9,878	65.2%
Other purposes	18,523	18,375	148	n/a
Unrestricted	(309,227)	(262,420)	(46,807)	17.8%
Total net assets	\$ (13,338)	\$ (26,300)	\$ 12,962	-49.3%

The Municipality's total assets amounted to \$999.1 million at June 30, 2010, an increase of \$4.5 million when compared with the prior year. The decrease in other assets of \$9.6 million is mainly the net effect result of: (i) a decrease in cash of approximately \$34.4 million mainly from the acquisition or construction of capital assets and infrastructure net of, (ii) an increase in property tax receivable of \$15.4 million and, (iii) an increase in inventories of approximately \$4.6 million.

The Municipality's total liabilities amounted to \$1,012 million at June 30, 2010, a decrease of \$8.5 million when compared with the prior year. The decrease is mainly due to the principal payments and deductions of long-term liabilities of approximately \$88.8 million, net of the issuance of general obligation bonds and additions to compensated absences and other long-term liabilities of approximately \$82.9 million.

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

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

Changes in Net Assets

The condensed changes in net assets information is presented below:

**Condensed Statements of Activities (in thousands)
For the Fiscal Years Ended June 30, 2010**

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Pctg.</u>
Program revenues:				
Charges for services	\$ 60,417	\$ 58,068	\$ 2,349	4.0%
Operating grants and contributions	121,008	110,520	10,488	9.5%
Capital grants and contributions	4,610	1,048	3,562	n/a
General revenues:				
Property taxes	238,690	214,652	24,038	11.2%
Municipal license tax	157,381	156,033	1,348	0.9%
Sales Tax	54,487	54,646	(159)	-0.3%
Construction excise and other local taxes	16,637	28,570	(11,933)	-41.8%
Grants and contributions not restricted to specific programs	30,380	30,359	21	0.1%
Interest income	3,884	5,386	(1,502)	-27.9%
Other	4,964	4,419	545	12.3%
Total revenues	692,458	663,701	28,757	4.3%
Expenses:				
General government	118,236	109,022	9,214	8.5%
Public safety	64,185	61,834	2,351	3.8%
Public works	76,920	78,205	(1,285)	-1.6%
Culture and recreation	26,319	24,586	1,733	7.0%
Health and welfare	259,579	261,505	(1,926)	-0.7%
Urban development	57,456	57,684	(228)	-0.4%
Economic development	25,424	22,500	2,924	13.0%
Education	21,071	16,075	4,996	31.1%
Interest on long-term debt	30,306	35,459	(5,153)	-14.5%
Total expenses	679,496	666,870	12,626	1.9%
Change in net assets before special item	12,962	(3,169)	16,131	-509.0%
Special item	-	20,345	(20,345)	n/a
Change in net assets	12,962	17,176	(4,214)	-24.5%
Net assets at beginning of year	(26,300)	(43,476)	17,176	-39.5%
Net assets at end of year	\$ (13,338)	\$ (26,300)	\$ 12,962	-49.3%

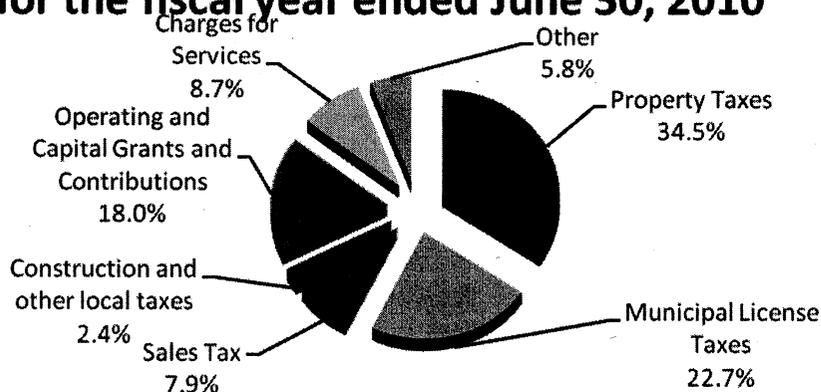
The Municipality's total revenues decreased by approximately \$28.7 million. Approximately 67.5% (68.4% in 2009) of the Municipality's total revenue came from taxes, while approximately 22.5% (21.4% in 2009) resulted from grants and contributions, including federal aid. Charges for services provided approximately 8.7% (8.8% in 2009) of the total revenues.

Revenues from property, municipal license and sales taxes increased by approximately 2.9%. Revenues from construction and other local taxes decreased by 41.7% due to the negative impact of the recession on investors to develop new commercial and residential projects.

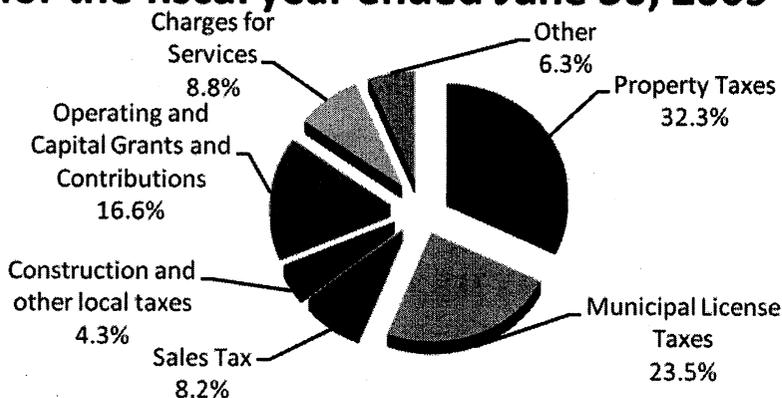
Charges for services increased by approximately 4.0% when compared with prior fiscal year mainly due to an increase in health care service revenues.

The following charts summarize the Municipality's revenues by sources for the governmental activities for the fiscal years ended June 30, 2010 and 2009.

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



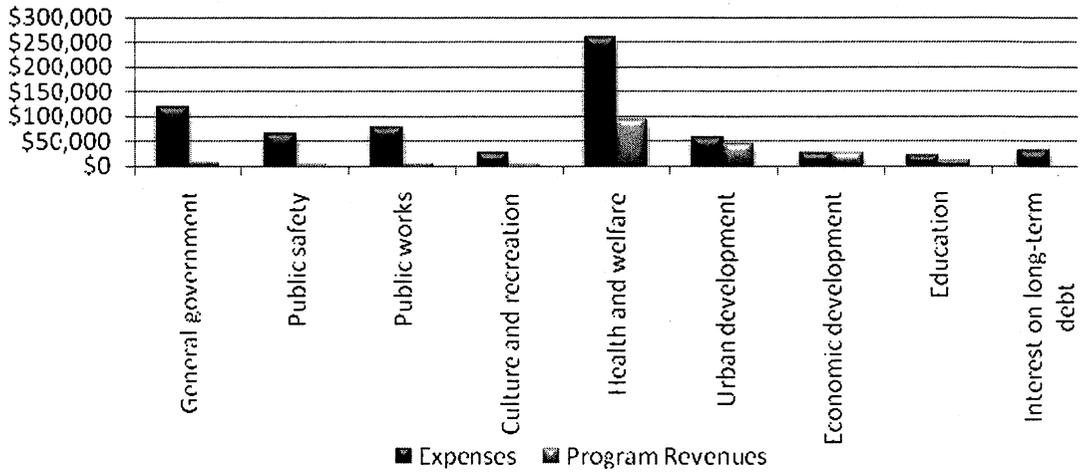
**Revenues by Source-Governmental Activities
for the fiscal year ended June 30, 2009**



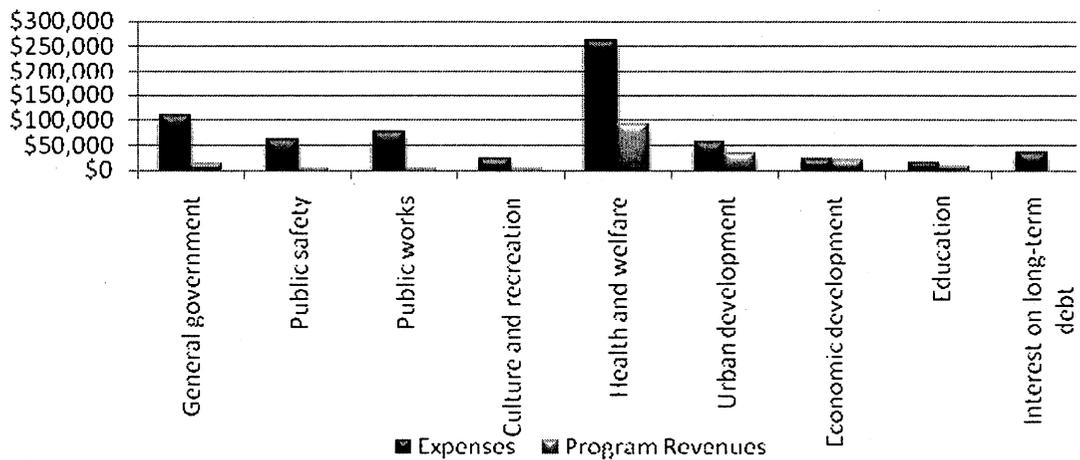
The Municipality's total expenses amounted to \$679.5 million and \$666.9 million for the fiscal years ended June 30, 2010 and 2009, respectively. Increase in total expenses was mainly due to increases in payroll and professional services.

The following chart summarizes the Municipality's program revenues compared to program expenses for the governmental activities for the fiscal years ended June 30, 2010 and 2009.

**Expenses and Program Revenues-Governmental Activities
for the fiscal year ended June 30, 2010 (In thousands)**



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



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In addition, fund balance for governmental funds provide classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$99.7 million, a net decrease of \$7.0 million in comparison with the prior year. The combined fund balances include nonspendable fund balances amounting to \$18.9 million at June 30, 2010. This is the portion of fund balances that cannot be spent readily with cash or is legally or contractually required not to be spent (\$7.5 million) in the General Fund or there are not expected to be converted in cash soon enough to affect the current period (\$11.4 million). There are restricted fund balances amounting to \$51.5 million. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes (\$15.5 million); 2) to pay for capital projects (\$11.0 million; and 3) to pay for debt services (\$25.0 million). There are committed fund balances amounting to \$69.0 million that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions 1) to pay for specific programs purpose (\$5.1 million) and; 2) to pay for capital projects (\$63.9 million). Accordingly, since there is an excess of nonspendable, restricted and committed fund balances over total fund balances, a negative unassigned fund balance of \$39.7 million was reported in the governmental funds at June 30, 2010.

Governmental funds include the general fund, which is the main operating fund of the Municipality. As of June 30, 2010 and 2009, the General Fund has an accumulated deficit of \$18,438,846 and \$18,447,256, respectively. Key factors in the decrease of General Fund's deficit are as follows:

- ❖ Increase of \$4.3 million in total revenues.
- ❖ Increase of \$26.6 million in total expenditures.
- ❖ Other financing sources of \$28.3 million

Increase of \$4.3 million in total revenues was mainly due to the net effect of a decrease of approximately \$12.0 million in construction excise and other local taxes; and an increase of \$13.8 million and \$1.4 million in property taxes and municipal license tax, respectively.

The increase in property tax revenues resulted from the approval of Act No. 71 by the Legislature of Puerto Rico, which established an incentive plan for the payment of real and personal property tax dues. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interest of the unpaid principal of pass-due property tax liability. The period that tax payers have to enjoy for such benefit extends until December 13, 2010. The unpaid property taxes covered under this Act are those related to fiscal year 2009 and earlier (for personal property) and for 2008 and earlier (for real property). This incentive plan justifies the extension of the collection period for revenue recognition purposes from 60 days following June 30, 2010 to December 13, 2010 as defined in National Council on Government Accounting ("NCGA") Interpretation 3. The extension of the collection period is only applicable for the year ended June 30, 2010.

The decrease in construction excise and other local taxes was related with the decrease of investors available to star new construction projects as a result of current recession.

The increase of \$26.6 million in expenditures was mainly due to the current payment of approximately \$28.2 million for the early retirement program.

There were transfers out from the General Fund amounted to approximately \$6.4 million to federal programs to cover certain expenditures.

Other financing sources amounting to \$28.3 million result from the proceeds of long-term debt issued.

Governmental funds also include the Debt Service Fund. The fund balance of the Debt Service Fund as of June 30, 2010 and 2009 amounted to \$25.0 million and \$15.1 million, respectively. The increased of \$9.9 million in the fund balance of the Debt Service Fund is the result of a increase to the special ad valorem tax restricted for debt service and accounted for in the Debt Service Fund from 2.0% to 3.5%, and was effective on January 1, 2010.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Municipality approved an original budget for the General Fund of \$483.4 million. During the year, there was no amendment to include any changes in revenues that were identified during the course of the fiscal year. However, there were transfers of appropriations between the original and final budget due to changes in departments' budgeted expenditures.

On the budgetary basis, actual revenues of the General Fund for the fiscal year ended June 30, 2011 were \$516.4 million while actual expenditures were \$513.9 million. Accordingly, as a result of the tighter controls imposed by the Municipality's management, there was an excess of actual revenues over expenditures of approximately \$2.5 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2010 and 2009 amounted to approximately \$651.4 million and \$637.3 million, respectively, net of accumulated depreciation. This investment in capital assets includes land, buildings, sites, improvements, equipment, intangibles, infrastructure, works of art, vehicles and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the Municipality, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

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

	2010	2009	Change	Pctg.
Land	\$ 97,555	\$ 93,425	\$ 4,130	4.4%
Works of art	2,224	2,224	-	0.0%
Buildings and building improvements	262,939	232,912	30,027	12.9%
Site improvements	79,112	82,369	(3,257)	-4.0%
Infrastructure	171,441	164,274	7,167	4.4%
Equipment and vehicles	9,361	8,480	881	10.4%
Intangible	-	382	(382)	-100.0%
Construction in progress	28,769	53,214	(24,445)	-45.9%
Total	\$ 651,401	\$ 637,280	\$ 14,121	2.2%

The increase in the Municipality's capital assets was 2.2% over last year. Actual expenditures to purchase or construct capital assets for the fiscal years ended June 30, 2010 and 2009 were \$48.5 million and \$77.1 million,

respectively. Depreciation charges amounted to \$34.4 million and \$33.2 million for the fiscal years ended June 30, 2010 and 2009, 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, 2010 and 2009, the Municipality has approximately \$74.6 million and \$91.7 million, respectively, of unexpended proceeds from bond issuances that are restricted or committed to future construction activities.

Additional details regarding the Municipality's capital assets can be found in Note 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 \$27.7 billion, the legal debt limit margin of the Municipality as of June 30, 2010, was \$2.8 billion. The Municipality's available legal debt margin as of June 30, 2010, was calculated by GDB to equal \$2.3 billion after subtracting from the legal margin the amount of \$410.6 million in outstanding general obligation debt as of June 30, 2010, and adding to the legal margin the amount in its Redemption Fund of \$19.6 million as of June 30, 2010.

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

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

During fiscal year 2010, the Municipality issued bonds amounting to \$34.8 million to provide for construction projects and equipment needs of the Municipality, and special obligation bonds amounting to \$28.3 million to finance the current portion of an early retirement termination benefit. General obligation debt includes bonds, notes and mortgage as shown in the table below:

**General Outstanding Debt (in thousands)
As of June 30,**

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Pctg.</u>
Bonds payable	\$ 410,636	\$ 384,158	\$ 26,478	6.9%
Notes payable	217,525	230,781	(13,256)	-5.7%
Mortgage payable	4,177	4,490	(313)	-7.0%
Total	\$ 632,338	\$ 619,429	\$ 12,909	2.1%

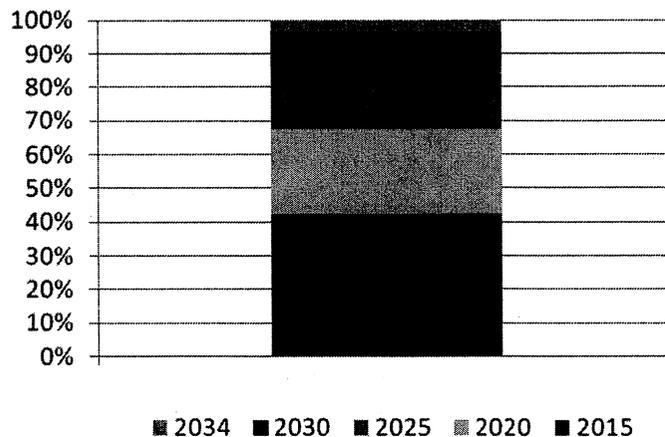
At June 30, 2010, the Municipality had \$410.6 million of general obligation bonds outstanding. The following chart indicates the principal amortization of the Municipality's general obligation bonds in five-year increments.

**General Obligation Bonds
Principal Amortization
In Five Year Increments Following Fiscal Year 2010
(in thousands)**

<u>Fiscal Years</u>	<u>Principal Amortization</u>
2011-2015	\$ 174,001
2016-2020	103,098
2021-2025	76,095
2026-2030	43,210
2031-2034	14,232
Total	<u>\$ 410,636</u>

As can be seen in the following chart, approximately 86% of the Municipality's outstanding general obligation bonds will be retired within the next fifth teen (15) years.

GOB Principal Amortization



The Municipality has various outstanding notes payable amounting to \$217.5 million at June 30, 2010. Those notes payable were mainly issued for the acquisition, construction or improvement of capital assets and for working capital

purposes. These outstanding notes payable will be paid with unrestricted property tax revenues and financial resources arising from sales taxes recorded in the debt service fund. There were no notes payable issued during the fiscal year ended June 30, 2010.

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

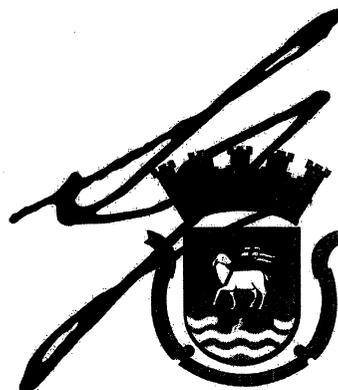
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable. On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 7, known as the Fiscal Emergency Act, for the purpose of stabilizing the financial condition of the central government by requiring the implementation of a cost reduction program, including payroll cost. The broad effect of the implementation of these measures cannot be presently determined at June 30, 2010. These factors were considered when preparing the Municipality's budget for the 2010-2011 fiscal years.

FINANCIAL CONTACT

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

BASIC FINANCIAL STATEMENTS



THIS PAGE INTENTIONALLY LEFT BLANK

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

**STATEMENT OF NET ASSETS
As of June 30, 2010**

<u>ASSETS</u>	Governmental <u>Activities</u>
Cash in commercial banks	\$ 82,012,774
Cash with fiscal agent	150,995,197
Accounts receivable:	
Property tax	44,330,473
Municipal license tax	7,000,000
Sales tax	4,587,321
Construction excise tax	5,000,000
Intergovernmental	21,188,879
Other	8,238,474
Loan receivables, net	11,379,124
Inventories	7,541,214
Deferred charges, net	2,295,682
Real estate held for sale	175,201
Restricted cash in commercial banks	2,956,129
Capital assets not being depreciated	128,548,017
Capital assets being depreciated, net	522,852,834
Total assets	<u>999,101,319</u>
 LIABILITIES	
Accounts payable and accrued liabilities	66,840,399
Intergovernmental payables	4,370,092
Deferred revenues:	
Municipal license tax	117,072,882
Federal grant revenues	10,329,430
Bonds and interest payable	47,073,781
Noncurrent liabilities:	
Due within one year	87,748,767
Due in more than one year	679,004,235
Total liabilities	<u>1,012,439,586</u>
 NET ASSETS	
Invested in capital assets, net of related debt	252,341,458
Restricted for:	
Debt service	25,024,372
Other purposes	18,523,143
Unrestricted	(309,227,240)
Total net assets	<u>\$ (13,338,267)</u>

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

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

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Expense and Changes In Net Assets-Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
General government	\$118,236,295	\$ 5,814,947	\$ 64,492	\$ -	\$(112,356,856)
Public safety	64,184,743	439,066	1,427,179	-	(62,318,498)
Public works	76,920,317	35,890	-	3,248,995	(73,635,432)
Culture and recreation	26,318,795	1,431,650	-	-	(24,887,145)
Health and welfare	259,578,631	40,993,473	52,064,078	-	(166,521,080)
Urban development	57,456,367	3,415,378	38,494,187	1,361,374	(14,185,428)
Economic development	25,423,606	3,811,676	21,346,945	-	(264,985)
Education	21,070,955	4,474,920	7,611,428	-	(8,984,607)
Interest on long-term debt	30,305,957	-	-	-	(30,305,957)
Total governmental activities	\$679,495,666	\$ 60,417,000	\$121,008,309	\$ 4,610,369	\$(493,459,988)

General revenues:

Property taxes	238,689,896
Municipal license tax	157,380,457
Sales tax	54,487,359
Construction and other local taxes	16,636,641
Grants and contributions not restricted to specific programs	30,379,513
Interest income	3,884,103
Other	4,963,287
Total general revenues	506,421,256
Net change in net assets	12,961,268
Net assets at beginning of year	(26,299,535)
Net assets at end of year	\$ (13,338,267)

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

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

BALANCE SHEET - GOVERNMENTAL FUNDS
As of June 30, 2010

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash in commercial banks	\$ 37,789,803	\$ -	\$ 44,222,971	\$ 82,012,774
Cash with fiscal agent	5,032,638	52,813,166	93,149,393	150,995,197
Accounts receivable, net:				
Property tax	19,776,651	24,553,822	-	44,330,473
Municipal license tax	7,000,000	-	-	7,000,000
Sales tax	4,587,321	-	-	4,587,321
Construction excise tax	5,000,000	-	-	5,000,000
Intergovernmental	852,710	-	20,336,169	21,188,879
Other	7,665,230	-	573,244	8,238,474
Loans receivable, net	-	-	11,379,124	11,379,124
Due from other funds	48,749,715	-	1,155,631	49,905,346
Inventories	7,516,820	-	24,394	7,541,214
Real estate held for sale	-	-	175,201	175,201
Restricted cash in commercial banks	-	-	2,956,129	2,956,129
Total assets	<u>\$143,970,888</u>	<u>\$77,366,988</u>	<u>\$ 173,972,256</u>	<u>\$ 395,310,132</u>
LIABILITIES AND FUND BALANCES (DEFICIT)				
Liabilities:				
Accounts payable and accrued liabilities	\$ 41,467,738	\$ -	\$ 25,372,661	\$ 66,840,399
Intergovernmental payables	3,869,114	-	500,978	4,370,092
Due to other funds	-	5,268,835	44,636,511	49,905,346
Matured bonds and interest payable	-	47,073,781	-	47,073,781
Deferred revenues:				
Municipal license tax	117,072,882	-	-	117,072,882
Federal grant revenues	-	-	10,329,430	10,329,430
Total liabilities	162,409,734	52,342,616	80,839,580	295,591,930
Fund balances (deficit):				
Nonspendable	7,516,820	-	11,403,518	18,920,338
Restricted	3,296,422	25,024,372	23,179,889	51,500,683
Committed	5,117,626	-	63,911,909	69,029,535
Unassigned	(34,369,714)	-	(5,362,640)	(39,732,354)
Total fund balances (deficit)	<u>(18,438,846)</u>	<u>25,024,372</u>	<u>93,132,676</u>	<u>99,718,202</u>
Total liabilities and fund balances (deficit)	<u>\$143,970,888</u>	<u>\$77,366,988</u>	<u>\$ 173,972,256</u>	<u>\$ 395,310,132</u>

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

Total governmental fund balances		\$ 99,718,202
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Land	\$ 97,554,632	
Building and site improvements, net of depreciation	342,050,941	
Infrastructure, net of depreciation	171,440,476	
Equipment and vehicles, net of depreciation	9,361,417	
Works of art	2,224,365	
Construction in progress	<u>28,769,020</u>	
Total		651,400,851
<p>Deferred charges, net of accumulated amortization, are not available to pay for current period expenditures and, therefore, are deferred in the funds.</p>		
		2,295,682
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Bonds payable	(410,636,000)	
Mortgage payable	(4,176,905)	
Notes payable	(217,525,016)	
Compensated absences	(48,901,959)	
Net pension liability	(47,091,179)	
Claims and judgments	(6,100,000)	
Landfill obligation	(18,000,000)	
Other liabilities	<u>(14,321,943)</u>	
Total		<u>(766,753,002)</u>
Total net assets of governmental activities		<u>\$ (13,338,267)</u>

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

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES (DEFICIT) – GOVERNMENTAL FUNDS**
For the Fiscal Year Ended June 30, 2010

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property taxes	\$173,645,602	\$65,044,294	\$ -	\$ 238,689,896
Municipal license tax	157,380,457	-	-	157,380,457
Sales tax	45,789,406	8,697,953	-	54,487,359
Construction and other local taxes	16,636,641	-	-	16,636,641
Licenses and permits	1,617,940	-	-	1,617,940
Charges for services	50,466,112	-	2,115,877	52,581,989
Fines and forfeitures	5,331,574	-	-	5,331,574
Interest	2,719,094	22,650	1,142,359	3,884,103
Intergovernmental:				
Federal	-	-	124,904,559	124,904,559
Local	30,379,513	-	1,599,615	31,979,128
Other	4,164,845	-	798,442	4,963,287
Total revenues	<u>488,131,184</u>	<u>73,764,897</u>	<u>130,560,852</u>	<u>692,456,933</u>
EXPENDITURES:				
Current:				
General government	124,414,699	-	13,930,348	138,345,047
Public safety	58,717,647	-	1,575,059	60,292,706
Public works	72,857,126	-	1,857,794	74,714,920
Culture and recreation	16,601,374	-	1,769,912	18,371,286
Health and welfare	201,162,077	-	52,195,685	253,357,762
Urban development	5,089,957	-	43,534,402	48,624,359
Economic development	8,645,078	-	11,311,074	19,956,152
Education	10,671,423	-	9,237,895	19,909,318
Capital outlays	2,293,358	-	46,234,122	48,527,480
Debt service:				
Principal	3,940,675	42,722,000	3,463,064	50,125,739
Interest and other charges	5,561,330	21,165,635	3,578,992	30,305,957
Total expenditures	<u>509,954,744</u>	<u>63,887,635</u>	<u>188,688,347</u>	<u>762,530,726</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(21,823,560)</u>	<u>9,877,262</u>	<u>(58,127,495)</u>	<u>(70,073,793)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	6,428,030	6,428,030
Proceeds from bonds issued	28,260,000	-	34,775,000	63,035,000
Transfers out	(6,428,030)	-	-	(6,428,030)
Total other financing sources (uses)	<u>21,831,970</u>	<u>-</u>	<u>41,203,030</u>	<u>63,035,000</u>
NET CHANGE IN FUND BALANCES (DEFICIT)	8,410	9,877,262	(16,924,465)	(7,038,793)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(18,447,256)</u>	<u>15,147,110</u>	<u>110,057,141</u>	<u>106,756,995</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u><u>\$(18,438,846)</u></u>	<u><u>\$25,024,372</u></u>	<u><u>\$ 93,132,676</u></u>	<u><u>\$ 99,718,202</u></u>

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

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICIT) OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES**
For the Fiscal Year Ended June 30, 2010

Net change in fund balances (deficit) - total governmental funds \$ (7,038,793)

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	\$ 48,527,480	
Current year depreciation	<u>(34,406,483)</u>	14,120,997

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

Bond proceeds	(63,035,000)	
Bond issue costs	272,928	
Principal repayments on bonds	<u>36,557,000</u>	(26,205,072)

The repayments or deductions of the following long-term obligations are recorded as expenditures in the governmental funds, however, are recorded as reductions of their respective liabilities in the statement of net assets:

Mortgage payable	313,064	
Notes payable	13,255,675	
Compensated absences	5,095,718	
Net pension liability	30,079,497	
Landfill obligations	900,000	
Claims and judgments	1,011,863	
Other liabilities	<u>1,627,977</u>	52,283,794

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	(298,512)	
Claims and judgments	(1,611,863)	
Compensated absences accrual	(11,298,576)	
Other liabilities	<u>(6,990,707)</u>	(20,199,658)

Net change in net assets of governmental activities		<u><u>\$12,961,268</u></u>
---	--	----------------------------

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

1. **Organization and Reporting Entity**

A. Organization

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

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

B. Reporting Entity

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

Pursuant to the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14*, the Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unit of the Municipality if all of the following criteria are met:

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

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2010.

2. **Summary of Significant Accounting Policies**

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

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

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

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

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

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

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

- 1) Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- 2) The GWFS (i.e., the statement of net assets and the statement of activities) reports information on all activities of the Municipality.

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

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

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

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

By definition, the Municipality's general fund is considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund would be classified as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of

applying the aforementioned major fund criteria, no eliminations of interfund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

In the prior year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency as of July 1, 2008.

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

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

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

The outstanding balance of certain general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as certain notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension liability and other long-term obligations) are only accounted for in the accompanying statement of net assets. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

Special Revenue Funds - are non-major funds (reported within other governmental funds) used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

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

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

- 4) The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
- 5) Required supplementary information such as the Budgetary Comparison Schedule – General Fund and the Notes to the Budgetary Comparison Schedule – General Fund.

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

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

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

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

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

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including

individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for the first fiscal year that the use of the resources is permitted.

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

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

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

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2010. 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, 2010. At June 30, 2010, all revenue sources met this availability criterion.

Property taxes are all considered susceptible to accrual if commonly collected within 60 days following the end of the fiscal period, unless unusual circumstances justify a greater period. The Municipality understands that the unusual criteria was met through the approval of Act No. 71 by the Legislature of Puerto Rico which established an incentive plan for the payment of real and personal property tax dues. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interest of the unpaid principal of pass-due property tax liability. The period that tax payers have to enjoy for such benefit extends until December 13, 2010. The unpaid property taxes covered under this Act are those related to fiscal year 2009 and earlier (for personal property) and for 2008 and earlier (for real property). This incentive plan justifies the extension of the collection period for revenue recognition purposes from 60 days following June 30, 2010 to December 13, 2010 as defined in NCGA Interpretation 3. The effect of this extension was to increase property tax revenues by \$14.9 million. The extension of the collection period is only applicable for the year ended June 30, 2010. The Municipality will continue with the collection period of 60 days beginning in July 1, 2010 unless other unusual circumstances arise.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and 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, 2010.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

Modifications to the accrual basis of accounting include:

- 1) Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1, 2010, which are recorded as governmental fund liabilities at June 30, 2010 which is the date when resources were available in the debt service fund.
- 2) Compensated absences, net pension liability, claims and judgments and the estimated liability for municipal solid waste landfill closure and post-closure care costs are recorded only when they mature (when payment is due).
- 3) Certain other accrued liabilities not due and payable (unmatured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying Statement of Net Assets. Such liabilities are recorded in the governmental funds when they mature.

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

C. Assets, liabilities and net assets

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

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

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Government of Puerto Rico, deposited in GDB, and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in the other governmental

funds consists of unused proceeds of bonds and notes committed for the acquisition, construction or improvements of major capital facilities and other capital assets.

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

2) *Receivables and payables:*

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

The carrying value of advances between funds, as reported in the fund financial statements, if any, are offsetted by nonspendable fund balances of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2010 since they are not expected to be converted to cash soon enough after the current fiscal year-end.

Receivables consist of all revenues earned but not collected at June 30, 2010. These account receivables are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority ("PREPA") as payment in lieu of taxes. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Pursuant to the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues of Intra-Entity Transfers of Assets and Future Revenues* (GASB 48), transactions in which the Municipality is willing to exchange an interest in its expected future cash flows from collecting specific receivables or specific future revenues for immediate cash payments, generally, a single lump sum are either regarded as a sale or as a collateralized borrowing resulting in a liability depending on its continuing involvement with those receivables or future revenues. Accordingly, a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the accompanying Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue is deferred and amortized, except when specific criteria are met.

According to the criteria set forth by GASB. No. 48, there were no transactions involving receivables that should be reported as a sale as of and for the fiscal year ended June 30, 2010.

3) *Inventories:*

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

The carrying value of inventories are offsetted by nonspendable fund balances of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available

financial resources at June 30, 2010 since they are not expected to be converted to cash after the current fiscal year-end.

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

Loans receivable in the GFFS are presented at their net realizable value (outstanding principal balance reduced by an allowance for uncollectible loans. The allowance for uncollectible loans has been determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of the loans receivable. The carrying value of loans receivable are offsetted by nonspendable fund balance of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2010 since they are not expected to be currently converted to cash after the current fiscal year-end.

5) *Real Estate Held for Sale:*

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

The carrying value of real estate held for sale are offsetted by nonspendable fund balance of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2010 since they are not expected to be currently converted to cash after the current fiscal year-end.

6) *Deferred charges:*

Deferred charges in the accompanying Statement of Net Assets consist of bond issuance costs, net of accumulated amortization of \$2.2 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.

7) *Capital assets:*

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

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

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

Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated

useful life or the lease term. No depreciation or amortization has been recorded for land, work of arts and construction in progress. The estimated useful lives of other major capital asset categories are:

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

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

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

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

Intangible assets at June 30, 2010, consist primarily of computer software.

8) *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, 2010 and collected within 90 days (December 13, 2010 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.

9) *Long-term obligations:*

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, and other long-term liabilities, such as vacations and sick leave (compensated absences), claims and judgments, long-term liabilities to other governmental entities and third parties, and municipal solid waste landfill postclosure care costs. Bond issuance costs are reported in the GWFS as deferred charges and amortized over the term of the related debt using the straight-line method.

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

Principal and interest payments on bonds due on July 1, 2010 are recorded as governmental fund liabilities in the GFFS (debt service fund) when resources are available in the debt service fund (June 30, 2010).

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

10) *Compensated absences:*

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences is reported in the Statement of Net Assets. A liability for compensated absences is reported in the fund financial statements only when matured (when payment is due), for example, as a result of employee resignations or retirements.

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, 2010 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.

11) *Claims and judgments:*

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when they mature (generally, when payment is due). Those liabilities are recorded in the accompanying statement of net assets as incurred, pursuant to the provisions of FASB Statement No. 5, *Contingencies*.

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

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

In the accompanying government-wide Statement of Net Assets, this liability was recognized over the useful life of the landfill prior to its closing in 2000, even though such costs are being incurred after the close of the landfill. The estimated of closing and post closing costs were determined using current costs. The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

At the governmental funds' level, landfill closure and post-closure care costs are recorded in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds as expenditures when they mature (generally, when payment or related disbursements are due).

13) *Termination benefits:*

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

In the accompanying GFFS, liabilities and expenditures for termination benefits are generally recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources (when they mature, generally when payment or related disbursements are due).

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

14) *Fund balances:*

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

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

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

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2010.

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

15) *Net Assets*

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

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

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

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

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

- a. *Invested in capital assets, net of related debt* – This net asset category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. Accordingly, all non-capital long-term debts (such as a portion of bonds and notes payable) has been excluded from the computation since were originally issued for certain purposes other than the acquisition, construction or improvement of capital assets. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.
- b. *Net assets restricted for debt service* – This net asset category consists of net resources restricted by bond indentures, debt covenants, and certain laws and regulations to cover the debt service payments of bonds and notes payable.

- c. *Net assets restricted for other purposes* – This net asset category consists of net resources externally restricted by creditors, grantors, contributors, laws and regulations to cover specific program purposes.
- d. *Unrestricted net assets* – Generally, this category consists of the excess of liabilities over related assets that are neither externally nor legally restricted, neither invested in capital assets. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

16) *Interfund and intra-entity transactions:*

The Municipality has the following types of transactions among funds:

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

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

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

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

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

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

18) Risk financing:

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

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

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

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

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality. The current insurance policies have not been canceled or terminated at June 30, 2010. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

Cost of insurance allocated to the Municipality for the fiscal year ended June 30, 2010 amounted to approximately \$9.5 million. The current insurance policies have not been cancelled or terminated. Workers' compensation insurance covering all municipal employees for the fiscal year ended June 30, 2010 amounted to approximately \$4.3 million.

19) 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.

20) *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.

21) *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.

22) *Future adoption of accounting pronouncements:*

The GASB has issued the following statements that have effective dates after June 30, 2010:

- a. GASB Statement No. 57, *OPEB Measurements by Agent Employers and agent Multiple Employers Plans* (GASB 57). The requirements of this Statement are effective for the fiscal year commencing on July 1, 2010.
- b. GASB Statement No. 59, *Financial Instruments Omnibus* (GASB 59). The requirements of this Statement are effective for the fiscal year commencing on July 1, 2010.
- c. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The requirements of this Statement are effective for the fiscal year commencing on July 1, 2011.
- d. GASB Statement No. 61, *The Financial Reporting Entity* (GASB 61). The requirements of this Statement are effective for the fiscal year commencing after June 15, 2012.
- e. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). The requirements of this Statement are effective for the fiscal year commencing on July 1, 2012.

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

3. **Deposits**

The Municipality's deposits at June 30, 2010 are composed of: (1) demand deposits in commercial banks and (2) demand deposits in the Government Development Bank for Puerto Rico (GDB, fiscal agent).

The Municipality follows the practice of pooling cash. At June 30, 2010, the pool cash account in commercial banks had a balance of \$82 million of which \$37.8 million, \$13.6 million, and \$30.6 million have been recorded in the general fund, the non-major capital project funds and the non-major special revenue funds, respectively. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations.

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

Cash in fiscal agent in the debt service fund consists principally of property and sales tax collections amounting to \$52.8 million that are restricted for the payment of the Municipality's debt service, as required by law. Cash in fiscal agent of \$5.0 million in the general fund consists mainly of contributions awarded by the Puerto Rico Electric Power Authority that are restricted for the acquisition, construction and improvement of certain minor infrastructure assets. Cash with fiscal agent amounting to recorded in other governmental funds for \$93.1 million consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvements of major capital facilities and other capital assets.

Cash in commercial banks in other governmental funds, amounting to \$44.2 million, represents the balance of interest and non-interest bearing accounts restricted to finance the operations of various federal and state funded programs and a revolving loan program. Restricted cash in other governmental funds amounting to \$3.0 million represents mortgage escrow deposits, reserve for replacement and residual receipts deposited with the mortgagee.

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, 2010:

- A. *Credit risk* – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. No investments in debt or equity securities were made during the fiscal year ended June 30, 2010. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits and certificates of deposits is considered low at June 30, 2010.
- 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, 2010, (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, 2010, the interest rate risk associated with the Municipality's cash is considered low since there is no investment in certificates of deposits, debt securities or any type of investments that could be affected by changes in interest rates.
- C. *Custodial credit risk* – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. The Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Government of Puerto Rico, issued by the Government Development Bank for Puerto Rico* as promulgated by Law No. 113 of August 3, 1995. Accordingly, the Municipality is only allowed to invest in obligations of the Government of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2010, the Municipality has balances deposited in commercial banks amounting to \$101.2 million which are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000. In addition, those public funds deposited in commercial banks are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Secretary of Treasury of the Government of Puerto Rico. Deposits of GDB, amounting to \$151.0 million (\$154.5 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, 2010. 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, 2010, the custodial credit risk associated with the Municipality's cash and cash equivalents and certificates of deposits are considered low.

- D. *Foreign exchange risk* – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. Accordingly to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2010.

4. Receivables

A. Property Tax

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

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (lien; levy date) and reporting such taxable value through a personal property tax return filed on May 15 (due date and collection date) subsequent to the assessment date. The total personal property tax rate in force at June 30, 2010 was 8.53 percent (of which taxpayers pay 8.33 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed every January 1 (lien; levy date) and are based on estimated current values of the property, deflated to 1957 market prices. Real property taxes are due and collectible on January 1 and July of every fiscal year. The total real property tax rate in force at June 30, 2010 was 10.53 percent (of which 10.33 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

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

Included within the total personal and real property tax rates, there is a portion of the tax rate in the amount of 3.50 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

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

The composition of property taxes receivable is as follows at June 30, 2010:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Property tax receivable	\$ 78,497,043	\$ 24,553,822	\$103,050,865
Less: allowance for doubtful accounts	<u>(58,720,392)</u>	-	<u>(58,720,392)</u>
Net property taxes receivable	<u>\$ 19,776,651</u>	<u>\$ 24,553,822</u>	<u>\$ 44,330,473</u>

B. Municipal license Tax

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Government of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of \$3 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2010, 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, 2010. Municipal license taxes collected prior to June 30, 2010 but pertaining to the next fiscal year are recorded as deferred revenues.

C. Sales Tax

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

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

Sale tax receivable represents sales tax levied that were collected subsequent to June 30, 2010, 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, 2010, but pertaining to current year period.

E. Intergovernmental Receivables

The composition of intergovernmental receivables in the general fund at June 30, 2010 is:

<u>Description</u>	<u>Amount</u>
Puerto Rico Electrical Power Authority (PREPA)	\$498,694
State and Local intergovernmental grants and contributions	354,016
Total intergovernmental receivables	<u>\$852,710</u>

Amounts due from the PREPA represents the net receivable from the excess of contributions in lieu of taxes of \$27,191,858 charged by the Municipality over the actual electric power consumption expense/expenditure of \$26,693,164 charged by PREPA for the fiscal year ended June 30, 2010.

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 in other governmental funds at June 30, 2010:

<u>Description</u>	<u>Amount</u>
Community Services Block Grant	\$ 4,020,510
HIV Emergency Relief Formula Grant	2,750,028
Head Start	2,367,605
Workforce Investment Act	2,243,466
Community Development Block Grant	1,348,694
HUD Home Investment Ownership	892,496
Supportive Housing Program	679,564
Risk Reduction	538,897
Housing Opportunities for Persons with AIDS	488,249
Childhood Immunization Grant	351,032
Cancer Control	325,802
Emergency Shelter Grant	257,923
Gang Resistance Education & Training	104,665
Others	3,967,238
Total	<u>\$20,336,169</u>

F. Other

Other accounts receivable as of June 30, 2010, net of allowance for doubtful account of \$1,464,058, are as follows:

	General Fund	Other Governmental Funds	Total
Medical Plans	\$6,579,193	\$ -	\$ 6,579,193
Rent	880,016	-	880,016
Other	206,021	573,244	779,265
Total other receivables	<u>\$7,665,230</u>	<u>\$ 573,244</u>	<u>\$ 8,238,474</u>

5. Loans Receivable

Loans at June 30, 2010 consist of the outstanding balance of credit facilities granted to private small business net of allowance for loan losses of \$345,571. The majority of these loans are collateralized or guaranteed by either first, second and third mortgage notes on real estate and/or chattel mortgage over machinery and equipment.

6. Interfund Transactions

Interfund receivables and payables at June 30, 2010 are summarized as follows:

A. Due from/to other fund

Receivable Fund	Payable Fund		Total
	Debt Service Fund	Other Governmental Funds	
General	\$5,268,835	\$ 43,480,880	\$48,749,715
Other Governmental Funds	-	1,155,631	1,155,631
Total	<u>\$5,268,835</u>	<u>\$ 44,636,511</u>	<u>\$49,905,346</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 2010, there were approximately \$5.3 million of such excess of cash recorded as due from other funds in the general fund.

2) *Other Governmental Funds:*

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

B. Transfers in (out)

During the fiscal year ended June 30, 2010, the Municipality made routine transfers of approximately \$6.4 million from the general fund to other governmental funds to finance as subsidies certain federal programs.

7. Capital Assets

Capital assets are primarily funded through the issuance of long-term bonds and notes. Capital assets activity for the fiscal year ended June 30, 2010 was as follows:

Governmental Activities:	Balance July 1, 2009	Reclassifications	Additions	Retirements and Adjustments	Balance June 30, 2010
Capital assets, not being depreciated:					
Land	\$ 93,424,552	\$ -	\$ 4,130,080	\$ -	\$ 97,554,632
Works of art	2,224,365	-	-	-	2,224,365
Construction in progress	53,213,903	(29,196,481)	4,751,598	-	28,769,020
Total capital assets not being depreciated	148,862,820	(29,196,481)	8,881,678	-	128,548,017
Capital assets, being depreciated:					
Buildings and building improvements	372,982,489	25,841,206	18,969,573	-	417,793,268
Site improvements	165,199,802	1,809,900	2,961,011	-	169,970,713
Infrastructure	216,135,252	1,545,375	14,335,180	-	232,015,807
Equipment and vehicles	77,987,389	-	3,380,038	(1,957,600)	79,409,827
Intangible	3,825,426	-	-	-	3,825,426
Total capital assets being depreciated	836,130,358	29,196,481	39,645,802	(1,957,600)	903,015,041
Less accumulated depreciation for:					
Buildings and building improvements	(140,070,329)	-	(14,783,552)	-	(154,853,881)
Site improvements	(82,831,077)	-	(8,028,082)	-	(90,859,159)
Infrastructure	(51,861,238)	-	(8,714,093)	-	(60,575,331)
Equipment and vehicles	(69,507,793)	-	(2,498,217)	1,957,600	(70,048,410)
Intangible	(3,442,887)	-	(382,539)	-	(3,825,426)
Total accumulated depreciation	(347,713,324)	-	(34,406,483)	1,957,600	(380,162,207)
Total capital assets being depreciated, net	488,417,034	29,196,481	5,239,319	-	522,852,834
Governmental activities capital assets, net	\$ 637,279,854	\$ -	\$ 14,120,997	\$ -	\$ 651,400,851

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 3,679,723
Public safety	1,427,941
Public works	1,725,117
Culture and recreation	7,659,004
Health and welfare	4,821,058
Urban development	8,714,311
Economic development	5,330,413
Education	1,048,916
Total depreciation expense – governmental activities	<u>\$34,406,483</u>

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2010 are summarized as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Accounts payable	\$39,634,668	\$ 25,372,661	\$ 65,007,329
Accrued liabilities	1,833,070	-	1,833,070
Total	<u>\$41,467,738</u>	<u>\$ 25,372,661</u>	<u>\$ 66,840,399</u>

9. Intergovernmental Payables

Intergovernmental payables at June 30, 2010 are summarized as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Puerto Rico Employees Retirement System	\$2,346,679	\$ -	\$ 2,346,679
Puerto Rico Aqueduct and Sewer Authority	653,991	21,873	675,864
Other	868,444	479,105	1,347,549
Total	<u>\$3,869,114</u>	<u>\$ 500,978</u>	<u>\$ 4,370,092</u>

10. Deferred Revenues

A. Municipal License Tax

The deferred revenues of approximately \$117.1 million in the general fund at June 30, 2010 relate to municipal license tax collected in fiscal year 2010 that will be earned in fiscal year 2011.

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
Recovery Reinvestment Act	\$ 5,633,521
Section 8 Housing Choice Vouchers	1,875,531
Child and Adult Care Food Program	871,531
Department of Treasury Equitable Sharing	572,649
Department of Justice Equitable Sharing	246,107
Others	1,130,091
Total	\$10,329,430

11. Long-Term Debt

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$384,158,000	\$63,035,000	\$(36,557,000)	\$410,636,000	\$38,488,000
Mortgage payable	4,489,969	-	(313,064)	4,176,905	340,736
Notes payable	230,780,691	-	(13,255,675)	217,525,016	14,005,436
Compensated absences	42,699,101	11,298,576	(5,095,718)	48,901,959	4,000,000
Net pension liability	77,170,676	-	(30,079,497)	47,091,179	25,386,618
Claims and judgments	5,500,000	1,611,863	(1,011,863)	6,100,000	1,000,000
Landfill obligation	18,900,000	-	(900,000)	18,000,000	900,000
Other liabilities	8,959,213	6,990,707	(1,627,977)	14,321,943	3,627,977
Total	\$772,657,650	\$82,936,146	\$(88,840,794)	\$766,753,002	\$87,748,767

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, 2010 amounted to approximately \$27.7 billion. Long-term debt, except for the bonds payable, mortgage payable and certain notes payable, is paid with unrestricted funds.

B. Bonds Payable

The Municipality issues general obligation bonds mainly to provide funds for the acquisition and construction of major capital facilities. During fiscal year 2010, the Municipality issued bonds for approximately \$63 million.

Bonds payable outstanding at June 30, 2010 are as follows:

<u>Description</u>	<u>Outstanding Amount</u>
2010 general obligation bonds for the third payment of the early retirement termination benefit with an original amount of \$28.3 million due in annual installments of \$415,000 to \$2,365,000, through July 1, 2034; with interest ranging from 4.8% to 7.5%	\$ 27,845,000
2010 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$11.2 million due in annual installments of \$255,000 to \$1,025,000, through July 1, 2029; with interest ranging from 4.8% to 7.5%	10,955,000
2010 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$10.1 million due in annual installments of \$725,000 to \$1,340,000, through July 1, 2019; with interest ranging from 5.0% to 7.5%	9,330,000
2010 general obligation bonds for the acquisition, construction and improvements of various capital assets with an original amount of \$13.5 million due in annual installments of \$340,000 to \$1,260,000, through July 1, 2028; with interest ranging from 4.8% to 7.5%	13,170,000
2009 general obligation bonds for the acquisition of various capital assets with an original amount of \$7.0 million due in annual installments of \$800,000 to \$1,230,000, through July 1, 2015; with interest ranging from 4.75% to 7.5%	5,350,000
2009 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$16.9 million due in annual installments of \$430,000 to \$1,585,000, through July 1, 2027; with interest ranging from 4.75% to 7.5%	16,025,000
2008 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$4.7 million due in annual installments of \$175,000 to \$500,000, through July 1, 2023; with interest ranging from 2.43% to 7.5%	4,355,000
2008 general obligation bonds for the second payment of the early retirement termination benefit with an original amount of \$20.0 million due in annual installments of \$305,000 to \$1,635,000, through July 1, 2032; with interest ranging from 3.93% to 7.25%	19,015,000
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%	4,495,000

Description	Outstanding Amount
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%	6,845,000
2007 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$13.8 million due in annual installments of \$320,000 to \$1,260,000, through July 1, 2026; with interest ranging from 6.50% to 7.50%	12,370,000
2007 general obligation bonds for the first payment of the early retirement termination benefit with an original amount of \$22.6 million due in annual installments of \$357,000 to \$1,812,000, through July 1, 2031; with interest ranging from 6.60% to 7.00%	20,996,000
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%	365,000
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%	1,590,000
2005 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$18.6 million due in annual installments of \$480,000 to \$1,585,000, through July 1, 2025; with interest ranging from 4.23% to 5.31%	15,890,000
2005 general obligation bonds for the acquisition of various capital assets with an original amount of \$6.0 million due in annual installments of \$720,000 to \$1,020,000, through July 1, 2012; with interest ranging from 4.23% to 4.73%	1,980,000
2004 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$18.9 million due in annual installments of \$570,000 to \$1,450,000, through July 1, 2024; with interest ranging from 4.17% to 5.28%	15,055,000
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%	6,725,000
2004 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$22.2 million due in annual installments of \$815,000 to \$1,130,000, through July 1, 2027; with interest ranging from 2.76% to 5.31%	17,110,000

<u>Description</u>	<u>Outstanding Amount</u>
2003 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$12.8 million due in annual installments of \$415,000 to \$620,000, through July 1, 2028; with interest ranging from 1.61% to 4.00%	9,745,000
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%	46,080,000
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%	3,320,000
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%	11,635,000
1999 general obligations bonds for the construction and improvements of various capital assets with an original amount of \$65.0 million due in annual installments of \$1,740,000 to \$5,885,000, through July 1, 2018; with interest ranging from 4.87% to 6.46%	37,580,000
1999 serial bonds for the construction and improvements of various capital assets with an original amount of \$70.7 million due in annual installments of \$2,810,000 to \$7,255,000, through July 1, 2013; with interest ranging from 4.87% to 6.11%	20,370,000
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%	31,905,000
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%	26,725,000
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%	10,980,000

Description	Outstanding Amount
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%	2,830,000
Total	<u>\$410,636,000</u>

These bonds are payable from the special ad valorem property tax of two percent (3.50%), which is restricted for debt service and retained by GDB for such purposes.

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

According to sections 103 and 148 to 150 of the U.S. Internal Revenue Code and sections 1.148 to 1.150 of the U.S. Treasury Regulation, the Municipality's the tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2010, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

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

Year ending June 30,	Principal	Interest
2011	\$ 38,488,000	\$ 23,527,234
2012	36,031,000	22,462,088
2013	37,416,000	20,947,693
2014	30,988,000	18,838,208
2015	31,078,000	17,022,983
2016 – 2020	103,098,000	60,139,849
2021 – 2025	76,095,000	34,729,274
2026 – 2030	43,210,000	12,750,254
2031 – 2034	14,232,000	2,923,977
Total	<u>\$410,636,000</u>	<u>\$213,341,560</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:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 340,736	\$ 341,965
2012	370,854	311,847
2013	403,633	279,067
2014	439,312	243,390
2015	478,144	204,560
2016 – 2019	<u>2,144,226</u>	<u>358,997</u>
Total	<u>\$4,176,905</u>	<u>\$1,739,826</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, 2010 approximates \$24.2 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% (4.50% at June 30, 2010) 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, 2010 approximates \$35.0 million. This note will be repaid from unrestricted property tax revenues.

During May 2005, the Municipality issued a note payable to GDB for approximately \$17.3 million. The note is payable in annual installments ranging from \$1.4 to \$2.1 million through July 2014 and bears interest at 1.25% over 90-day LIBOR with a minimum of 5% and maximum of 12% (5.0% at June 30, 2010). The outstanding balance as of June 30, 2010 approximates \$7.9 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 (5.0% at June 30, 2010). The outstanding balance as of June 30, 2010 approximates \$28.3 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 January 2008, the Municipality issued a special obligation note (SON-A) for \$36.1 million. The SON-A is payable in annual installments through July 2014 ranging from \$5.1 to \$7.0 million and will bear interest at 90-day LIBOR plus 1.25 percent with a minimum of 5% and maximum of 12% (5.0% at June 30, 2010). The proceeds of the SON-A were used principally to infrastructure capital outlays. The outstanding balance as of June 30, 2010 approximates \$25.5 million. The SON-A will be repaid through sales tax revenues pledge and account for in the Municipality Redemption Fund.

During January 2008, the Municipality issued a special obligation note (SON-B) for \$37.1 million. The SON-B is payable in annual installments through July 2032 ranging from \$.06 to \$3.1 million and will bear interest at 90-day LIBOR plus 1.25 percent with a minimum of 5% and maximum of 12% (5.0% at June 30, 2010). The proceeds of the SON-B were used principally to the construction of various capital facilities and other capital assets. The outstanding balance as of June 30, 2010 approximates \$35.7 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 \$60.9 million and are payable in annual installments ranging from \$2.7 to \$6.3 million, mature at various dates through July 2022 and bear interest at 0.2% over 90-day LIBOR (0.8% at June 30, 2010). 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
2011	\$ 14,005,436	\$ 11,154,100
2012	14,835,556	12,004,234
2013	15,751,355	11,093,773
2014	16,660,174	10,115,926
2015	8,016,371	9,074,632
2016 – 2020	47,786,108	37,964,605
2021 – 2025	50,101,551	22,906,750
2026 – 2030	40,744,765	10,322,529
2031 – 2032	9,623,700	1,391,145
Total	<u>\$217,525,016</u>	<u>\$126,027,694</u>

E. Compensated Absences

The government-wide statement of net assets includes approximately \$29.0 million, \$16.4 million and \$3.5 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.

F. Net Pension Liability

The amount reported as net pension liability of approximately \$47.1 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 liability has been recorded as a liability in governmental activities in the accompanying Statement of Net Assets.

G. Landfill Obligation

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In December 2000, the Municipality's landfill facilities were closed. Based on current costs, the preliminary annual estimate of postclosure costs has been assessed to be approximately \$900,000 for a period of approximately 21 years. The balance of postclosure costs of \$18 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.

H. Other Liabilities

Other liabilities represent a reserve of \$2.2 million for possible claims arising from federal cost disallowances as a result of prior audits of federal financed program, \$3.2 million in connection with a project to establish a land information management system and \$8.9 million in other miscellaneous liabilities.

12. Pension Plan

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

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

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

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

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

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

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

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined-benefit plan. Benefits at retirement age will not be guaranteed by the Government of Puerto Rico. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both

alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employers' contributions (9.275% of the employees' salary) will be used to fund the current plan.

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

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

Funding Policy

Contribution requirements are established by law and are as follows:

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

Total employee contributions to the above-mentioned plans during the year ended June 30, 2010 amounted to approximately \$12.4 million. The Municipality's contributions during the years ended June 30, 2010, 2009 and 2008 amounted to approximately \$14.3 million, \$13.8 million, and \$10.5 million, respectively. These amounts represented 100% of the required contribution for the corresponding year. Additionally, the Municipality paid approximately \$1.9 million in excess of the required contribution of the year due to changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, which 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, 2010, a copy of which can be obtained from the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities, PO Box 42003, San Juan, PR 00940-2003.

Annual Pension Cost

The Municipality's recommended contribution, pension cost and decrease in net pension liability for the fiscal year ended June 30, 2010, are as follows:

	<u>Amount</u>
Annual required contribution and pension cost	\$ 14,324,097
Employer contributions made	<u>(16,246,325)</u>
Decrease in net pension liability	(1,922,228)
Net pension liability, beginning of year	<u>3,844,455</u>
Net pension liability, end of year	<u>\$ 1,922,227</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 Liability
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>\$ 72,739,611</u>	<u>\$ 45,168,952</u>

The Municipality has made its required contribution to the Program for the year ended June 30, 2010.

14. Fund Balance (Deficit)

As of June 30 2010, fund balance (deficit) is comprised of the following:

Fund balances (deficit):	General Fund	Debt Service Fund	Other Governmental Funds	Total
Nonspendable:				
Inventory and other assets	\$ 7,516,820	\$ -	\$ 24,394	\$ 7,541,214
Loans receivable	-	-	11,379,124	11,379,124
Restricted for:				
General government	-	-	55,524	55,524
Public safety	3,296,422	-	-	3,296,422
Urban development	-	-	12,106,075	12,106,075
Debt service	-	25,024,372	-	25,024,372
Capital projects	-	-	11,018,290	11,018,290
Committed:				
General government	3,733,359	-	1,251	3,734,610
Public safety	106,864	-	-	106,864
Health and welfare	19,689	-	165,642	185,331
Culture, recreation and education	11,527	-	-	11,527
Capital projects	68,470	-	63,745,016	63,813,486
Other purposes	1,177,717	-	-	1,177,717
Unassigned	(34,369,714)	-	(5,362,640)	(39,732,354)
Total fund balances (deficit)	\$ (18,438,846)	\$ 25,024,372	\$ 93,132,676	\$ 99,718,202

15. Net Assets

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

	<u>Amount</u>
Capital assets, net of accumulated depreciation	\$ 651,400,851
Outstanding balance on capital related debt	(504,076,148)
Unexpended capital debt proceeds	<u>105,016,755</u>
Total invested in capital assets, net of related debt	<u>\$ 252,341,458</u>

16. Risk Management

The Risk Management Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Government of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The Municipality maintains a claims-made policy since October 15, 1990 for the purpose of providing professional and patient care liability insurance with liability limits of \$300,000 for each medical incident and \$2

million for aggregate incidents. The Municipality also obtained tail insurance coverage for incidents incurred but not reported prior to October 14, 1990.

17. Commitments

A. Operating Leases

The Municipality leases real property, buildings, vehicles and equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the general fund and in other governmental funds for the year ended June 30, 2010, amounted to approximately \$6.6 million and \$1.6 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, 2010 of approximately \$74.6 million for the construction, improvements, or renovation of several capital facilities and the capital assets.

C. Other commitments

At June 30, 2010, the general fund had commitments of approximately \$19.7 million for executory purchases orders or contracts that will be honored during the subsequent year. In addition, the nonmajor miscellaneous special revenue funds had a deficit of \$4.1 million which will be covered with future budgetary appropriations of the general fund, if necessary.

18. Contingencies

A. Losses

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

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$6.1 million at June 30, 2010, for possible anticipated unfavorable judgments. These amounts were included in the financial statements and represent the amounts estimated as probable liabilities, which may require future available financial resources for its payment. Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significant, if any.

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

	<u>2010</u>	<u>2009</u>
Balance as of July 1	\$ 5,500,000	\$ 5,500,000
Add: Provision for claims and judgments	1,611,863	1,760,475
Less: Payments of claims and judgments	<u>(1,011,863)</u>	<u>(1,760,475)</u>
Balance as of June 30	<u>\$ 6,100,000</u>	<u>\$ 5,500,000</u>

It is management's opinion, based on the advice of legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial position, results of operations and cash flows condition of the Municipality.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "*Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133*" for the fiscal year ended June 30, 2009, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors. As described in Note 1, the accompanying Statement of Net Assets includes a reserve of \$2.2 million for possible federal cost disallowances related to questioned costs and claims from federal and state grantors.

B. Gains

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

With respect to pending and threatened litigation, the Municipality has not reported any receivables at June 30, 2010, for anticipated favorable judgments of approximately \$50.0 million. Although this amount was not included in the financial statements, the amount estimated as a probable receivable would represent future available financial resources for expenditures.

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

19. Subsequent Events

On July 23, 2010, the Municipality approved a termination benefit for a voluntary incentive retirement program. This termination benefit was not available to all employees and they shall present resignation for retirement on or before August 13, 2010 with an effective date of September 30, 2010. The termination benefit permits to receive a cash bonus of \$5,000.

On September 1, 2010, the Municipality and the System entered into a payment plan agreement amounting to \$21.8 million cover for a one-time recommended contribution to fund a retroactive adjustment related to the changes made in the types and amounts of benefits offered by special laws and costs of living adjustments. The payment plan agreement will due in monthly payments through 2015 and will not bear interest.

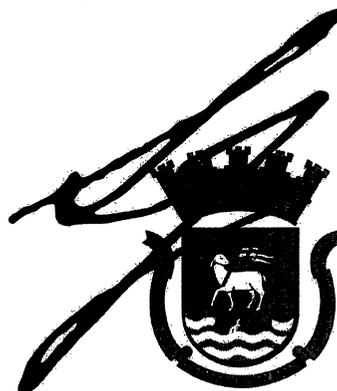
During November 2010, the Municipality issued an anticipation note for an income bond of \$55.1 million for the acquisition of a capital asset. The income bond will be due in annual installment through 2036 and will bear interest at LIBOR plus 3.5 percent.

During February 2011, the Municipality issued a line of credit of \$100 million for the acquisition, construction and improvements of various capital assets. The line of credit will be due in five (5) years or less if it is refinance through the issue of a refinancing bond. The line of credit will bear interest at Prime Variable plus 1.5 percent with a minimum of 6 percent.

□ □ □ □ □

THIS PAGE INTENTIONALLY LEFT BLANK

REQUIRED SUPPLEMENTARY INFORMATION



THIS PAGE INTENTIONALLY LEFT BLANK

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

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
For the Fiscal Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$158,478,066	\$158,478,066	\$ 173,645,602	\$ 15,167,536
Municipal license tax	149,000,000	149,000,000	157,380,457	8,380,457
Sales tax	51,000,000	51,000,000	45,789,406	(5,210,594)
Construction and other local taxes	26,500,000	26,500,000	16,636,641	(9,863,359)
Licenses and permits	479,000	479,000	1,617,940	1,138,940
Charges for services	47,772,110	47,772,110	50,466,112	2,694,002
Fines and forfeitures	4,750,000	4,750,000	5,331,574	581,574
Interest	6,500,000	6,500,000	2,719,094	(3,780,906)
Intergovernmental – local	29,911,164	29,911,164	30,379,513	468,349
Other	8,984,660	8,984,660	32,424,845	23,440,185
Total revenues	483,375,000	483,375,000	516,391,184	33,016,184
EXPENDITURES:				
Current:				
General government	122,520,825	109,956,632	134,737,442	(24,780,810)
Public safety	54,941,592	56,504,799	59,414,314	(2,909,515)
Public works	70,757,630	73,073,754	73,413,252	(339,498)
Culture and recreation	13,051,300	16,656,564	16,932,901	(276,337)
Health and welfare	201,203,460	206,084,603	204,568,536	1,516,067
Urban development	3,952,253	4,758,035	5,020,706	(262,671)
Economic development	9,658,209	9,352,037	9,080,875	271,162
Education	7,289,731	6,988,576	10,681,012	(3,692,436)
Total expenditures	483,375,000	483,375,000	513,849,038	(30,474,038)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 2,542,146	\$ 2,542,146
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 516,391,184
Differences - budget to USGAAP:				
The proceeds from the issuance of long-term debt are budgetary resources but are regarded as				
Other Financing Sources for financial reporting purposes				(28,260,000)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 488,131,184</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 513,849,038
Differences - budget to USGAAP:				
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes				(6,428,030)
Prior year encumbrances recorded as current year expenditures for USGAAP basis				18,713,814
Prior year encumbrances written off due to statutory limitations				(1,251,806)
Special general fund expenditure				4,764,075
Current year encumbrances recorded as expenditures for budgetary purposes				(19,692,347)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 509,954,744</u>

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

1. **Stewardship, Compliance and Accountability**

A. **Budgetary Control**

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

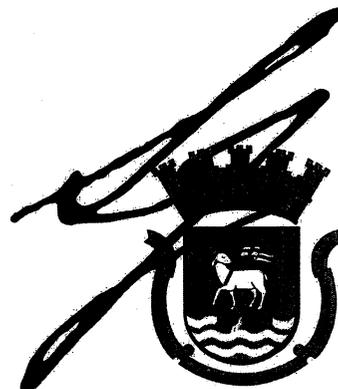
For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are disclosed in the notes of the financial statements as other significant commitments and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2010 representing the original budget. There was one supplemental appropriation for the year ended June 30, 2010.

□ □ □ □ □ □

COMBINING FINANCIAL STATEMENTS



THIS PAGE INTENTIONALLY LEFT BLANK

SPECIAL REVENUE FUNDS:

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

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

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

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

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

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

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

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

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

CAPITAL PROJECT FUNDS:

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

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

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

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

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

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

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

Loan Guarantee Fund – This fund accounts for and report resources from the loan agreement with the US Department of Housing and Urban Development under a variable rate note guaranteed pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended, restricted to expenditures for the construction or acquisition of major capital facilities and other capital assets.

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

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
As of June 30, 2010**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash in commercial banks	\$ 30,646,609	\$ 13,576,362	\$ 44,222,971
Cash with fiscal agent	1,709,000	91,440,393	93,149,393
Accounts receivable - intergovernmental	20,336,169	-	20,336,169
Accounts receivable - other	573,093	151	573,244
Loans receivable, net	11,379,124	-	11,379,124
Due from other funds	141,327	1,014,304	1,155,631
Inventories	24,394	-	24,394
Real estate held for sale	175,201	-	175,201
Restricted cash in commercial banks	2,937,529	18,600	2,956,129
Total assets	\$ 67,922,446	\$106,049,810	\$173,972,256
LIABILITIES AND FUND BALANCES (DEFICIT)			
Liabilities:			
Accounts payable and accrued liabilities	\$ 9,572,542	\$ 15,800,119	\$ 25,372,661
Intergovernmental payables	485,978	15,000	500,978
Due to other funds	29,011,353	15,625,158	44,636,511
Deferred revenues	10,329,430	-	10,329,430
Total liabilities	49,399,303	31,440,277	80,839,580
Fund balances (deficit):			
Nonspendable	11,403,518	-	11,403,518
Restricted	12,161,599	11,018,290	23,179,889
Committed	166,893	63,745,016	63,911,909
Unassigned	(5,208,867)	(153,773)	(5,362,640)
Total fund balances	18,523,143	74,609,533	93,132,676
Total liabilities and fund balances	\$ 67,922,446	\$106,049,810	\$173,972,256

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

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
As of June 30, 2010**

	<u>Department of Justice Funds</u>	<u>Department of Labor Funds</u>	<u>Health & Human Services Funds</u>	<u>Housing & Urban Development Funds</u>
ASSETS				
Cash in commercial banks	\$ 217,008	\$ 1,063,860	\$ 6,217,551	\$ 11,082,750
Cash with fiscal agent	-	-	-	-
Accounts receivable - intergovernmental	422,918	2,246,798	11,506,963	4,706,760
Accounts receivable - other	1,198	6,116	91,341	262,555
Loans receivable, net	-	-	-	-
Due from other funds	37,534	-	-	-
Inventories	-	-	24,394	-
Real estate held for sale	-	-	-	-
Restricted cash in commercial banks	-	-	-	-
Total assets	<u><u>\$ 678,658</u></u>	<u><u>\$ 3,316,774</u></u>	<u><u>\$17,840,249</u></u>	<u><u>\$ 16,052,065</u></u>
 LIABILITIES AND FUND BALANCES (DEFICIT)				
Liabilities:				
Accounts payable and accrued liabilities	\$ 202,726	\$1,022,913	\$ 4,705,165	\$ 2,127,476
Intergovernmental payables	-	40,518	316,448	129,012
Due to other funds	-	2,251,188	6,767,536	11,714,419
Deferred revenues	475,932	2,155	6,051,100	2,081,158
Total liabilities	<u><u>678,658</u></u>	<u><u>3,316,774</u></u>	<u><u>17,840,249</u></u>	<u><u>16,052,065</u></u>
 Fund balances (deficit):				
Nonspendable	-	-	24,394	-
Restricted	-	-	-	-
Committed	-	-	-	-
Unassigned	-	-	(24,394)	-
Total fund balances (deficit)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Total liabilities and fund balances (deficit)	<u><u>\$ 678,658</u></u>	<u><u>\$3,316,774</u></u>	<u><u>\$17,840,249</u></u>	<u><u>\$ 16,052,065</u></u>

Independent Capital Fund	Miscellaneous Special Revenue Funds	Comunidad de Retiro	Total Nonmajor Special Revenues Funds
\$ 8,293,082	\$ 3,771,828	\$ 530	\$ 30,646,609
-	1,709,000	-	1,709,000
-	1,452,730	-	20,336,169
86,203	20,703	104,977	573,093
11,379,124	-	-	11,379,124
103,793	-	-	141,327
-	-	-	24,394
175,201	-	-	175,201
-	-	2,937,529	2,937,529
<u>\$ 20,037,403</u>	<u>\$ 6,954,261</u>	<u>\$ 3,043,036</u>	<u>\$ 67,922,446</u>
\$ -	\$ 1,021,139	\$ 493,123	\$ 9,572,542
-	-	-	485,978
-	8,278,210	-	29,011,353
-	1,717,738	1,347	10,329,430
-	11,017,087	494,470	49,399,303
11,379,124	-	-	11,403,518
8,658,279	954,754	2,548,566	12,161,599
-	166,893	-	166,893
-	(5,184,473)	-	(5,208,867)
<u>20,037,403</u>	<u>(4,062,826)</u>	<u>2,548,566</u>	<u>18,523,143</u>
<u>\$20,037,403</u>	<u>\$ 6,954,261</u>	<u>\$ 3,043,036</u>	<u>\$ 67,922,446</u>

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

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
As of June 30, 2010**

	<u>Joint Resolution Funds</u>	<u>Citizen Participation Funds</u>	<u>Various Bond Issue Funds</u>	<u>2008 Bond Issue Funds</u>	<u>2009 Bond Issue Funds</u>
ASSETS					
Cash in commercial banks	\$11,479,452	\$ (749,817)	\$ -	\$ -	\$ -
Cash with fiscal agent	-	-	32,978,128	11,496,581	14,115,055
Accounts receivable - other	-	-	151	-	-
Due from other funds	-	599,371	-	125,689	-
Restricted cash in commercial banks	18,600	-	-	-	-
Total assets	<u>\$11,498,052</u>	<u>\$ (150,446)</u>	<u>\$ 32,978,279</u>	<u>\$11,622,270</u>	<u>\$ 14,115,055</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 446,731	\$ 3,327	\$ 13,307,089	\$ 417,569	\$ 486,151
Intergovernmental payables	15,000	-	-	-	-
Due to other funds	2,353,668	-	4,293,530	-	6,117,202
Total liabilities	<u>2,815,399</u>	<u>3,327</u>	<u>17,600,619</u>	<u>417,569</u>	<u>6,603,353</u>
Fund balances (deficit):					
Restricted	8,682,653	-	-	-	-
Committed	-	-	15,377,660	11,204,701	7,511,702
Unassigned	-	(153,773)	-	-	-
Total fund balances (deficit)	<u>8,682,653</u>	<u>(153,773)</u>	<u>15,377,660</u>	<u>11,204,701</u>	<u>7,511,702</u>
Total liabilities and fund balances (deficit)	<u>\$11,498,052</u>	<u>\$ (150,446)</u>	<u>\$ 32,978,279</u>	<u>\$11,622,270</u>	<u>\$ 14,115,055</u>

<u>2010 Bond Issue Funds</u>	<u>Loan Guarantee Fund</u>	<u>Total Nonmajor Capital Project Funds</u>
\$ -	\$2,846,727	\$ 13,576,362
32,850,629	-	91,440,393
-	-	151
-	289,244	1,014,304
-	-	18,600
<u>\$32,850,629</u>	<u>\$3,135,971</u>	<u>\$ 106,049,810</u>

\$ 338,918	\$ 800,334	\$ 15,800,119
-	-	15,000
<u>2,860,758</u>	<u>-</u>	<u>15,625,158</u>
<u>3,199,676</u>	<u>800,334</u>	<u>31,440,277</u>

-	2,335,637	11,018,290
29,650,953	-	63,745,016
-	-	(153,773)
<u>29,650,953</u>	<u>2,335,637</u>	<u>74,609,533</u>
<u>\$32,850,629</u>	<u>\$3,135,971</u>	<u>\$ 106,049,810</u>

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

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010**

	Nonmajor Special Revenue Funds	Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES:			
Charges for services	\$ 2,115,877	\$ -	\$ 2,115,877
Interest	1,142,359	-	1,142,359
Intergovernmental federal	124,904,559	-	124,904,559
Intergovernmental local	-	1,599,615	1,599,615
Other	798,442	-	798,442
Total revenues	<u>128,961,237</u>	<u>1,599,615</u>	<u>130,560,852</u>
EXPENDITURES:			
Current:			
General government	9,397,022	4,533,326	13,930,348
Public safety	1,408,403	166,656	1,575,059
Public works	713,935	1,143,859	1,857,794
Culture and recreation	948,294	821,618	1,769,912
Health and welfare	51,295,813	899,872	52,195,685
Urban development	41,510,849	2,023,553	43,534,402
Economic development	11,239,745	71,329	11,311,074
Education	7,731,403	1,506,492	9,237,895
Capital outlays	3,953,244	42,280,878	46,234,122
Debt service:			
Principal	3,463,064	-	3,463,064
Interest and other charges	3,578,992	-	3,578,992
Total expenditures	<u>135,240,764</u>	<u>53,447,583</u>	<u>188,688,347</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(6,279,527)</u>	<u>(51,847,968)</u>	<u>(58,127,495)</u>
OTHER FINANCING SOURCES:			
Transfer in	6,428,030	-	6,428,030
Proceeds from bonds issued	-	34,775,000	34,775,000
Total other financing sources	<u>6,428,030</u>	<u>34,775,000</u>	<u>41,203,030</u>
NET CHANGE IN FUND BALANCES	148,503	(17,072,968)	(16,924,465)
FUND BALANCES, BEGINNING OF YEAR	<u>18,374,640</u>	<u>91,682,501</u>	<u>110,057,141</u>
FUND BALANCES, END OF YEAR	<u>\$18,523,143</u>	<u>\$74,609,533</u>	<u>\$ 93,132,676</u>

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

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -
NONMAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2010**

	<u>Department of Justice Funds</u>	<u>Department of Labor Funds</u>	<u>Health & Human Services Funds</u>	<u>Housing & Urban Development Funds</u>
REVENUES:				
Charges for services	\$ -	\$ -	\$ -	\$ -
Interest	74	-	1,451	114
Intergovernmental Federal	1,162,442	10,133,312	47,423,291	51,497,095
Intergovernmental Local	-	-	-	-
Other	-	-	-	798,442
Total revenues	<u>1,162,516</u>	<u>10,133,312</u>	<u>47,424,742</u>	<u>52,295,651</u>
EXPENDITURES:				
Current:				
General government	12,663	46,500	8,866,413	470,907
Public safety	971,931	65,996	-	51,267
Public works	-	-	-	308,702
Culture and recreation	-	-	-	916,510
Health and welfare	72,957	189,943	43,934,294	2,240,857
Urban development	-	-	-	41,063,370
Economic development	-	9,718,029	-	975,658
Education	-	65,627	-	-
Capital outlays	104,965	47,217	99,189	861,901
Debt service:				
Principal	-	-	-	3,150,000
Interest and other charges	-	-	-	3,209,355
Total expenditures	<u>1,162,516</u>	<u>10,133,312</u>	<u>52,899,896</u>	<u>53,248,527</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(5,475,154)</u>	<u>(952,876)</u>
OTHER FINANCING SOURCES:				
Transfer in	-	-	5,475,154	952,876
Total other financing sources	<u>-</u>	<u>-</u>	<u>5,475,154</u>	<u>952,876</u>
NET CHANGE IN FUND BALANCES (DEFICIT)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

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

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES (DEFICIT) -
NONMAJOR SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2010**

	<u>Independent Capital Fund</u>	<u>Miscellaneous Special Revenue Funds</u>	<u>Comunidad de Retiro</u>	<u>Total Nonmajor Special Revenue Funds</u>
REVENUES:				
Charges for services	\$ -	\$ -	\$ 2,115,877	\$ 2,115,877
Interest	1,140,641	79	-	1,142,359
Intergovernmental Federal	-	14,688,419	-	124,904,559
Other	-	-	-	798,442
Total revenues	<u>1,140,641</u>	<u>14,688,498</u>	<u>2,115,877</u>	<u>128,961,237</u>
EXPENDITURES:				
Current:				
General government	-	539	-	9,397,022
Public safety	-	319,209	-	1,408,403
Public works	-	405,233	-	713,935
Culture and recreation	-	31,784	-	948,294
Health and welfare	-	3,209,425	-	51,295,813
Urban development	-	174,281	1,648,337	41,510,849
Economic development	273,198	546,058	-	11,239,745
Education	-	7,665,776	-	7,731,403
Capital outlays	-	2,726,723	113,249	3,953,244
Debt service:				
Principal	-	-	313,064	3,463,064
Interest and other charges	-	-	369,637	3,578,992
Total expenditures	<u>273,198</u>	<u>15,079,028</u>	<u>2,444,287</u>	<u>135,240,764</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>867,443</u>	<u>(390,530)</u>	<u>(328,410)</u>	<u>(6,279,527)</u>
OTHER FINANCING SOURCES:				
Transfer in	-	-	-	6,428,030
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,428,030</u>
NET CHANGE IN FUND BALANCES (DEFICIT)	<u>867,443</u>	<u>(390,530)</u>	<u>(328,410)</u>	<u>148,503</u>
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>19,169,960</u>	<u>(3,672,296)</u>	<u>2,876,976</u>	<u>18,374,640</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$20,037,403</u>	<u>\$ (4,062,826)</u>	<u>\$ 2,548,566</u>	<u>\$ 18,523,143</u>

**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 June 30, 2010**

	Joint Resolution Funds	Citizen Participation Funds	Various Bond Issue Funds	2008 Bond Issue Funds
REVENUES:				
Intergovernmental Local	\$ 1,599,615	\$ -	\$ -	\$ -
Total revenues	<u>1,599,615</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
Current:				
General government	828	-	-	735,864
Public safety	-	-	-	-
Public works	246,982	-	-	67,302
Culture and recreation	191,724	-	-	-
Health and welfare	74,870	292,236	62,577	85,355
Urban development	9,198	-	387,041	813,546
Economic development	-	-	2,520	-
Education	-	-	-	21,475
Capital outlays	<u>3,403,757</u>	<u>81,653</u>	<u>12,038,800</u>	<u>13,955,852</u>
Total expenditures	<u>3,927,359</u>	<u>373,889</u>	<u>12,490,938</u>	<u>15,679,394</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(2,327,744)</u>	<u>(373,889)</u>	<u>(12,490,938)</u>	<u>(15,679,394)</u>
OTHER FINANCING SOURCES:				
Proceeds from bonds issued	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES (DEFICIT)	(2,327,744)	(373,889)	(12,490,938)	(15,679,394)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>11,010,397</u>	<u>220,116</u>	<u>27,868,598</u>	<u>26,884,095</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 8,682,653</u>	<u>\$ (153,773)</u>	<u>\$ 15,377,660</u>	<u>\$11,204,701</u>

(Continued)

**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 June 30, 2010

	<u>2009 Bond Issue Funds</u>	<u>2010 Bond Issue Funds</u>	<u>Loan Guarantee Fund</u>	<u>Total Nonmajor Capital Projects Funds</u>
REVENUES:				
Intergovernmental Local	\$ -	\$ -	\$ -	\$ 1,599,615
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,599,615</u>
EXPENDITURES:				
Current:				
General government	2,962,795	833,839	-	4,533,326
Public safety	166,656	-	-	166,656
Public works	678,637	150,938	-	1,143,859
Culture and recreation	373,769	256,125	-	821,618
Health and welfare	321,421	63,413	-	899,872
Urban development	331,051	482,717	-	2,023,553
Economic development	68,809	-	-	71,329
Education	1,485,017	-	-	1,506,492
Capital outlays	8,918,190	3,337,015	545,611	42,280,878
Total expenditures	<u>15,306,345</u>	<u>5,124,047</u>	<u>545,611</u>	<u>53,447,583</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(15,306,345)</u>	<u>(5,124,047)</u>	<u>(545,611)</u>	<u>(51,847,968)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from bonds issued	-	34,775,000	-	34,775,000
Total other financing sources	<u>-</u>	<u>34,775,000</u>	<u>-</u>	<u>34,775,000</u>
NET CHANGE IN FUND BALANCES (DEFICIT)	(15,306,345)	29,650,953	(545,611)	(17,072,968)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>22,818,047</u>	<u>-</u>	<u>2,881,248</u>	<u>91,682,501</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ 7,511,702</u>	<u>\$ 29,650,953</u>	<u>\$ 2,335,637</u>	<u>\$ 74,609,533</u>

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

PART II

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

THIS PAGE INTENTIONALLY LEFT BLANK



**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, 2010, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we can consider to be material weakness as describe above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies items 10-01 to 10-07.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of San Juan, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported on under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 10-01 to 10-07.

We noted certain other matters that we reported to management of the Municipality in a separate letter dated March 7, 2011.

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 Municipal Legislature, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not to be used by anyone other than these specified parties.

March 7, 2011

Aguiño, De la Torre, Affonso & Co. LLP

Stamp number 2587903
has been affixed to the
original report

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

PART III

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

THIS PAGE INTENTIONALLY LEFT BLANK



Aquino, De Córdoba, Alfaro & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

Richard N. Alfaro, CPA (1951-1998)

Jorge Aquino Barreto, CPA, CVA
Jerry De Córdoba, CPA, JD
Miguel Angel Ortiz, CPA
Eduardo González Green, CPA, CFE

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

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

Compliance

We have audited the 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 could have direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2010. The Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants, applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

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

As described in items 10-07 to 10-08 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>
Cash Management	14.239	HOME Investment Partnership Program	10-08
Reporting	17.258, 17.259, 17.260	Workforce Investment Act	10-07

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

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of San Juan, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-01 to 10-08.

Internal Control over Compliance

Management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements or laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine 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 was not design to identify all deficiencies in the entity's internal control that might be significant deficiencies or material weakness and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and others that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-07 to be material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-08 to be significant deficiency.

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.

Aquino, De Cordova, Alfaro & Co. LLP

March 24, 2011

Stamp number 2587904
has been affixed to the
original report



THIS PAGE INTENTIONALLY LEFT BLANK

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

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

THIS PAGE INTENTIONALLY LEFT BLANK

**MUNICIPALITY OF SAN JUAN SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010
PART IV — SUMMARY OF AUDITORS' RESULTS**

1. The independent auditors' report on the basic financial statements expressed an unqualified opinion.
2. Significant deficiencies in internal control over financial reporting were identified.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Significant deficiencies in internal control over compliance with requirements that could have a direct and material effect on major federal award programs were identified, 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
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249
Housing Opportunities for Persons with AIDS	14.241
HOME Investment Partnership Program	14.239
Community Development Block Grants/Entitlement	14.218
Community Development Block Grants ARRA	14.253
HIV Emergency Relief Project Grants	93.914
Minority AIDS Initiative	93.914
Workforce Investment Act ("WIA")	17.258, 17.259, 17.260
Workforce Investment Act ("WIA") ARRA	17.258, 17.259, 17.260
Head Start	93.600
Head Start ARRA	93.708
Early Head Start Expansion ARRA	93.709
Community Service Block Grants	93.569
Community Service Block Grant ARRA	93.710

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

**MUNICIPALITY OF SAN JUAN
 CAPITAL CITY OF PUERTO RICO
 SCHEDULE OF FINDINGS AND QUESTIONED COST
 FOR THE YEAR ENDED JUNE 30, 2010**

Reference Number	Findings	Questioned Costs for the Year Ended June 30, 2010
Accounting and Finance Department		
10-01	Deficit in the Municipality's general fund at June 30, 2010.	\$ -
10-02	The accounting records are not maintained up to date.	
10-03	The Municipality is not canceling outstanding checks, which have been outstanding for a period of six months.	
10-04	Internal control over property management need to be strengthened.	
10-05	The Municipality has deficiencies in the execution of property management procedures.	
Human Resources Department		
10-06	The Municipality does not have an effective system to ensure the completeness and accuracy of the employee files.	
Workforce Investment Act/Workforce Investment Act - ARRA		
10-07	Financial report does not reconcile with Oracle	-
HOME Investment Partnership Program		
10-08	Municipality does not comply with cash management procedures	-
		<hr/>
		\$ -
		<hr/> <hr/>

**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***

THIS PAGE INTENTIONALLY LEFT BLANK

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

FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Finding Number 10-01

Department

Accounting and Finance

Category

Internal Control

Condition

The Municipality closed its fiscal year ended June 30, 2010 with a fund balance deficiency in the general fund of approximately \$18.4 million. In 2010, the Municipality reduced the deficit by \$8,410 and established a long-term financial plan to amortize the deficit in a period no longer than 40 years.

Criteria

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

Effect

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

Cause

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

Recommendation

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

Views of Responsible Officials

Management agrees.

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

**FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number 10-02

Department

Accounting and Finance

Category

Internal Control

Condition

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

Criteria

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

Effect

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

Cause

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

Recommendation

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

Views of Responsible Officials

Management agrees.

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

**FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number 10-03

Department

Accounting and Finance

Category

Internal Control

Condition

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

Criteria

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

Effect

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

Cause

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

Recommendation

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

Views of Responsible Officials

Management agrees.

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

**FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number 10-04

Department

Property Management

Category

Internal Control

Condition

The Municipality has not performed a physical inventory of equipment and vehicles. According to the existing records, the cost of the equipment and vehicles owned by the Municipality is approximately \$79.4 millions as of June 30, 2010. In addition, property records are not segregated by fund.

Criteria

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

Chapter VII, Section 23 of the "Reglamento para la Administración de Municipios" also establishes that property physical inventories should be performed on an annual basis, as part of the overall property management control of the Municipality. Updated inventory lists should be compared and agreed with general ledger, and differences, if any, should be investigated and reconciled.

Effects

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

Cause

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

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

**FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Recommendation

A physical inventory of equipment and vehicles owned by the Municipality should be performed as soon as possible for all departments and all differences should be investigated, reconciled and adjusted on the property and equipment subsidiary ledgers. In connection with this inventory, tags should be placed on each asset with numbers that are recorded detail property records. This will help improve the tracking of assets for disposal and impairment purposes. Federal regulations regarding disposition of property acquired with federal funds should be followed for property items which are not located as a result of such inventory.

Views of Responsible Officials

Management agrees.

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

**FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number 10-05

Department

Property Management

Category

Internal Control

Condition

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

Criteria

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

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

Effects

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

Cause

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

Recommendation

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

MUNICIPALITY OF SAN JUAN

CAPITAL CITY OF PUERTO RICO

**FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Views of Responsible Officials

Management agrees

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

**FINDINGS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number 10-06

Department

Human Resources Department

Category

Internal Control

Condition

A sample of 125 employee files were tested and 10 files (8%) lack documentation concerning salaries increase.

Criteria

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

Effects

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

Cause

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

Recommendation

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

Views of responsible personnel

Management agrees

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

PART VI

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

THIS PAGE INTENTIONALLY LEFT BLANK

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number 10-07

Federal program

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

Category

Internal Control/ Compliance

Compliance requirements

Reporting

Condition

The cumulative financial reports submitted to the Puerto Rico Human Resources and Occupational Development Council ("PRHRODC") did not agree with the accounting records.

Criteria

Based on provisions of the contract agreement between the PRHRODC and the Municipality, the WIA Program of the Municipality is required to submit to the PRHRODC a monthly cumulative expenditures report and is also required to maintain adequate fund accounting. In addition, OMB Circular A-102, accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub grant.

Effects

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

Cause

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

Questioned Costs

None

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Recommendation

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

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

Views of Responsible Officials

Management agrees.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Finding Number 10-08

Federal program

HOME Investment Partnership Program – CFDA # 14.241

Category

Internal Control/ Compliance

Compliance requirements

Cash management

Condition

We noted that four checks outstanding, issued before June 30, 2010 for a total of \$125,668 remain outstanding as of March 24, 2010. As represented by management, checks were retained in order to assure that contractors comply with contract provisions.

Criteria

The requirements for cash management are contained in the OMB Circular 102, A-102 Common Rule. Program costs of entities funded on a reimbursement basis must be paid for by entity funds before reimbursement is requested from the Federal Government.

Effects

The continued occurrence of this situation may result in the Municipality being exposed to cost disallowances and to pay interest for failure of following the cash management requirements.

Cause

The program does not have adequate controls to ensure that funds draw downs are made for expenditures already made.

Questioned Costs

None

Recommendation

We recommend that the program should establish internal controls to ensure the timely liquidation of all obligations before requesting the reimbursement.

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
FINDINGS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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, 2010**

THIS PAGE INTENTIONALLY LEFT BLANK

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Expenditures 2010
<u>Department of Housing and Urban Development (HUD)</u>		
Section 8 Housing Choice Vouchers	14.871	\$ 22,922,894
Community Development Block Grants/Entitlement Grants	14.218	11,394,316
Community Development Block Grants ARRA/Entitlement Grants (Recovery Funded Grants)	14.253	450,541
HOME Investment Partnership Programs	14.239	6,817,428
Housing Opportunities for Persons with AIDS	14.241	5,278,018
Lower Income Housing Assistant Program-Section 8 Moderate Rehabilitation	14.856	3,197,077
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	731,995
Emergency Shelter Grants Program	14.231	420,735
Supportive Housing Program	14.235	1,141,189
Community Development Block Grants/Section 108 Loan Guarantees	14.248	545,611
Shelter Plus Care	14.238	442,551
Homeless Prevention and Rapid Re-Housing Program	14.257	451,783
Subtotal		<u>53,794,138</u>
<u>Department of Health and Human Services (HHS)</u>		
Head Start	93.600	28,332,046
Head Start - ARRA	93.708	1,030,089
Early Head Start Expansion - ARRA	93.709	109,730
HIV Emergency Relief Project Grants	93.914	14,489,377
Minority AIDS Initiative	93.914	823,405
Cancer Control	93.399	951,651
Health Center Cluster (HCC)	93.224	490,726
Increased Services to Health	93.703	63,283
National Health Institute-WESTAT	93.990	531,159
Pass-through from Commonwealth of Puerto Rico Families and Child Administration-		
Community Services Block Grant	93.569	4,252,372
Community Services Block Grant-ARRA	93.710	1,316,677
Pass-through from Commonwealth of Puerto Rico Governor's Office-		
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	756,471
Pass-through from Commonwealth of Puerto Rico Department of Health-		
Risk Reduction	93.941	175,475
Childhood Immunization Grants	93.268	27,702
Immunization Grants - Influenza H1N1	93.268	306,675
Strengthening Families Program	93.556	27
Subtotal		<u>53,656,865</u>

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Expenditures 2010
<u>Department of Labor (DOL)</u>		
Pass-through from Commonwealth of Puerto Rico Right to Employment Administration-		
Workforce Investment Act - Youth	17.258	1,710,360
Workforce Investment Act - Adult	17.259	3,848,306
Workforce Investment Act - Displaced	17.260	1,567,828
Workforce Investment Act - Youth - ARRA	17.258	856,189
Workforce Investment Act - Adult - ARRA	17.259	1,508,487
Workforce Investment Act - Displaced - ARRA	17.260	642,142
Subtotal		<u>10,133,312</u>
<u>Department of Justice (DOJ)</u>		
Drug Free Communities Support Programs Grants	16.729	362,452
Community Prosecution Project Safe Neighborhoods	16.609	70,448
U.S. Customs Services (U.S.C.S)		98,109
Pass-through from Commonwealth of Puerto Rico Department of Justice-		
Edward Byrne Justice Assistance Grant	16.738	209,134
Edward Byrne Justice Assistance Grant - ARRA		
Crime Victim Assistant	16.575	72,857
Pass-through from Commonwealth of Puerto Rico Traffic Safety Commission-		
Alcohol, Tobacco, and Firearms Training Assistance		174,791
Subtotal		<u>987,791</u>
<u>Department of Education (DE)</u>		
Federal Pell Grant Program (PELL)	84.063	6,704,640
TRIO Student Support Services	84.042	313,199
Supplementary Educational Opportunity Grants	84.007	42,344
Academic Competitiveness Grant	84.375	48,716
National Science and Mathematics Access to Retain Talent (SMART)	84.376	62,424
Federal Work-Study Program (FWS)	84.033	66,638
Subtotal		<u>7,237,961</u>
<u>Department of Agriculture (USDA)</u>		
Pass-through from Commonwealth of Puerto Rico Department of Education-		
National School Lunch Program	10.555	204,782
Child and Adult Care Food Program (CACFP)	10.558	1,926,299
Nutrition Equipment Assistance Grant - ARRA	10.579	32,997
Subtotal		<u>2,164,078</u>
<u>Corporation for National and Community Service</u>		
Pass-through from Commonwealth of Puerto Rico Department of Health:		
Foster Grandparent Program	94.011	351,215
Retired and Senior Volunteer Program	94.002	58,663
Subtotal		<u>409,878</u>

See notes to the Schedule of Expenditures of Federal Awards.

MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Expenditures 2010
Department of Transportation		
Federal Transit Capital Investment	20.500	1,672,143
<u>Department of Homeland Security</u>		
Port Security Grant Program	97.056	89,312
Pass-through from Commonwealth of Puerto Rico Governor's Office		
Law Enforcement Terrorism Prevention Program (LETPP)	97.074	460,872
Public Assistance Grant	97.036	<u>64,495</u>
Subtotal		<u>550,184</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 130,670,845</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 FISCAL YEAR ENDED JUNE 30, 2010

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

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

Schedule of expenditures of federal awards		\$ 130,670,845
Comunidad del Retiro		2,444,287
Nonfederal programs included in the special revenue funds		<u>2,671,243</u>
Total special revenue funds		135,786,375
Capital projects funds	\$ 53,447,583	
Less: Loan guarantee fund	<u>(545,611)</u>	<u>52,901,972</u>
Other governmental funds columns in the governmental fund financial statements		<u>\$ 188,688,347</u>

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

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

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

**MUNICIPALITY OF SAN JUAN
CAPITAL CITY OF PUERTO RICO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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

PART VIII

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

THIS PAGE INTENTIONALLY LEFT BLANK



MUNICIPALITY OF SAN JUAN, PUERTO RICO

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2010

Reference Number	Finding Description	Questioned Costs	Status
Accounting and Finance Department			
09-01	Deficit in the Municipality's general fund at June 30, 2009	\$ -	Situation still prevails. Refer to Finding 10-01 and related Corrective Action Plan.
09-02	The Municipality is not canceling outstanding checks, which have been outstanding for a period in excess of		Situation still prevails. Refer to Finding 10-03 and related Corrective Action Plan.
09-03	Inactive and unnecessary funds and accounts are not closed.		Corrective Action Plan implemented with positive results.
09-04	Internal control over property management need to be strengthened.		Situation still prevails. Refer to Finding 10-04 and related Corrective Action Plan.
09-05	The Municipality does not have an effective system to ensure the completeness and accuracy of the employee files.		Situation still prevails. Refer to Finding 10-06 and related Corrective Action Plan.
All federal programs			
09-06	The municipality does not prepare periodic certifications.		Corrective Action Plan implemented with positive results.
Housing Opportunities for Persons with AIDS			
09-07	The Municipality must improve its internal control over compliance with subrecipient monitoring	-	Corrective Action Plan implemented with positive results.
09-08	The Municipality does not have adequate internal controls over the valuation of subgrantee proposals and monitoring subrecipients activities.		Corrective Action Plan implemented with positive results.
Home Investment Program			
09-09	Controls over financial information included in report submitted to HUD need to be strengthened.	-	Corrective Action Plan implemented with positive results.
HIV Emergency Relief Project Grants			
09-10	The Municipality must improve its subrecipient monitoring procedures	-	Corrective Action Plan implemented with positive results.
WIA			
09-11	Financial report submitted to PRHRODC did not agree with the accounting records.	-	Situation still prevails. Refer to Finding 10-07 and related Corrective Action Plan.



MUNICIPALITY OF SAN JUAN
Corrective Action Plan
Single Audit Requirements
as of June 30, 2010

		Management Response and/or Corrective Action			
Finding Number	Category	Condition Found	Management Response and/or Action	Assigned Responsibility	Expected Target Date
10-01	Internal Control	Deficit in the Municipality's general fund at June 30, 2010.	Our long term financial plan, will continue to enable us to: (1) finish operations with excess of revenues over expenditures; (2) apply the excess of revenues to the accumulated deficit within a period of 10 years or less; (3) be in compliance with local law which establishes that an outstanding deficit must be amortized in a period no longer than 40 years.	Finance Department	Continuous
10-02	Internal Control	The accounting records are not maintained up to date.	We are working with our IT Office in order to ensure that the format of the information provided by our financial system for reconciliation purposes will be modified to the needs in question. This will allow us to comply with the reconciliations on a timely basis.	Finance Department	Continuous
10-03	Internal Control	The Municipality is not canceling checks which have been outstanding for a period in excess of six months.	As part of the monthly reconciliation process, the Municipality identifies all outstanding checks over six months and adjusts the General Ledger to that effect. We have modified the instructions on our checks of all checking accounts to read, "NOT VALID AFTER 6 MONTHS OF DATE ISSUED" and sent notices to all banks with the appropriate instructions to this effect. We will continue to follow up on a monthly basis to ascertain that they are in compliance.	Finance Department	Continuous
10-04	Internal Control	Internal controls over property management need to be strengthened.	We are in the process of performing a physical inventory of all vehicles and equipment of the entire Municipality. Since the inventory is in a widely spread environment, this process will take various months to complete. Nevertheless, we have a physical inventory available from each Municipal Dependency and are being confirmed with the current information in our accounting archives. We continue to review our accounting process in order to segregate the property subsidiary into each program fund as required.	Finance Department	Continuous
10-05	Internal Control	The Municipality has deficiencies in the execution of property management procedures.	We have established procedures which are in effect for the fiscal year 2010-2011 and we understand that we will be in complete compliance in this matter during the fiscal year 2011-2012.	Finance Department	JUNE 2012



MUNICIPALITY OF SAN JUAN
Corrective Action Plan
Single Audit Requirements
as of June 30, 2010

Finding Number	Category	Condition Found	Management Response and/or Corrective Action		Expected Target Date
			Management Response and/or Action	Assigned Responsibility	
10-06	Internal Control	The Municipality does not have an effective system to ensure the completeness and accuracy of the employee files.	The Human Resources Department is continuously reviewing the filing system in order to comply with all requirements for employee records. They have established a standard checklist to ensure proper documentation is filed accordingly.	Human Resources Department	Continuous
10-07	Internal control/ Compliance	Financial report does not reconcile with Oracle.	The Federal Funds Division of the Finance Department implemented procedures in regards to the reconciliation of program reports versus our Municipality Financial Reports. During fiscal year 2010-2011 we will be in complete compliance of this requirement.	WIA	JUNE 2011
10-08	Internal control/ Compliance	The Municipality does not comply with cash management procedures.	Procedures were established to ensure that all payments issued are delivered within a reasonable time frame withstanding the compliance of all criteria of the case involved. If the case cannot be finalized in this time frame, the checks will be returned to the Finance Office for the proper cancellation of the transaction.	HOME	JUNE 2011