

***Municipality of San Juan
(Commonwealth of Puerto Rico)***

*Comprehensive Annual Financial Report and
Single Audit of Federal Financial Assistance For
the Fiscal Year Ended June 30, 2014 and
Independent Auditors' Report Thereon*

Municipality of San Juan Commonwealth of Puerto Rico

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2014



Prepared by:

Department of Finance
Ms. Sylvette R. Cordero Sánchez, CPA
Director

Hon. Carmen Yulín Cruz Soto
Mayor

December 29, 2014

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Municipality of San Juan
(Commonwealth of Puerto Rico)

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INTRODUCTORY SECTION



MUNICIPALITY OF SAN JUAN
COMMONWEALTH OF PUERTO RICO
PO Box 4355 San Juan, Puerto Rico 00901-4355
Tel: (787) 724-7171
www.sanjuanciudadpatria.com

December 29, 2014

Honorable Mayor Carmen Yulín Cruz Soto,
Members of the Municipal Legislature and Constituents
Municipality of San Juan,
Commonwealth of Puerto Rico

We are pleased to submit this Comprehensive Annual Financial Report and Single Audit of Federal Financial Assistance of the Municipality of San Juan, Commonwealth of Puerto Rico (the Municipality), as of and for the fiscal year ended June 30, 2014.

Responsibility for both, the accuracy of the data and the completeness and fairness of the presentation, including all disclosures presented in this report, rests with the Municipality's management. All disclosures necessary to enable readers to gain an understanding of the Municipality's financial activities have been included.

BACKGROUND INFORMATION AND ECONOMIC OUTLOOK

The Municipality is the largest municipality, principal seaport, and main governmental, financial, academic, cultural, and tourism center of Puerto Rico.

The Municipality's government is composed of a Mayor, and a Municipal Legislature of 17 members elected in general elections every four years. The Mayor is responsible for establishing and carrying out the policy-making, for overseeing the day-to-day operations of the municipal government and for appointing the senior municipal officials of the Municipality's departments. The Municipal Legislature is responsible, among other matters, for approving ordinances and resolutions, including the annual operating budget of the Municipality.



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

There are approximately 371,000 inhabitants with a population density of approximately 7,800 residents per square mile, making it the most densely populated municipality in the Island. The Municipality has an area 123.85 square kilometers; it has 18 political subdivisions, or wards, and is divided into four (4) major districts: (1) Old San Juan, (2) Hato Rey, (3) Río Piedras and (4) Santurce.

Old San Juan is a compact historic district, cultural center and major tourist attraction of Puerto Rico. Hato Rey is the main banking and financial services center of Puerto Rico having the headquarters of all major banks. Río Piedras is the transportation hub for connections with the rest of the Island and Puerto Rico's principal educational center having the main campus of the University of Puerto Rico. Santurce is a center for government and private offices.

According to statistics published by the Government Development Bank of Puerto Rico, the average family income (AFI) in San Juan was approximately \$17,000 for 2014.

The Island's Gross Domestic Product (GDP) and Gross National Product (GNP) have increased steadily over the past decade. The GDP is the total of consumer, investment and government spending, plus the value of exports minus value of imports. GNP is the GDP added to income accruing to residents with investments abroad, minus income earned in domestic markets accrued to investors living abroad. In Puerto Rico, the GDP exceeds the GNP because of the large amount of investment from the USA in the local economy. Nominal GDP and GNP according to the most recent report projected amounts to \$103.1 million and \$70.7 million, respectively.

San Juan is the most important socioeconomic center in Puerto Rico. It accounts for 9.7% of the island's population according to the latest figures from the Bureau Census. The unemployment rate in San Juan as of June 30, 2014 was 9.9%, which compares favorably with the unemployment for the entire island, which stood at 13.1% for the same period.

The economic base of the Municipality is diversified among the financial sector, wholesale and retail trade, small and medium sized business, shipping, tourism and the meetings and conventions industry.

FINANCIAL REPORTING ENTITY

The accompanying basic financial statements present, in an easily readable and efficiently organized way, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2014, the respective changes in financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2014, and the cash flows of the proprietary fund for the fiscal year ended June 30, 2014 in conformity with accounting principles generally accepted in the United States of America (GAAP).

INTERNAL CONTROLS

The management of the Municipality is responsible for establishing and maintaining adequate internal controls to ensure that the assets of the Municipality are protected from loss, theft or misuse, and that adequate accounting data is compiled for the preparation of its basic financial statements in conformity with GAAP.

The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of an internal control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires significant estimates and judgments by management.

The Municipality receives financial assistance in the form of grants and entitlements from the governments of the United States of America and the Commonwealth of Puerto Rico. Receipt of grants is generally conditioned upon compliance with several terms and conditions of the grant agreements and applicable laws and regulations, including the expenditure of resources for eligible purposes. As a result, the Municipality is also responsible for ensuring that internal controls are in place to ensure that processes related to these financial assistance grants and entitlements are in compliance with all applicable laws and regulations.



BUDGETARY AND FISCAL POLICIES AND INITIATIVES

The fiscal year of the Municipality begins on July 1. The Mayor is required by law to submit an annual balanced budget of revenues and expenditures of its operations pursuant to Chapter 7 of the Autonomous Municipalities Law for the approval of Municipal Legislature. Appropriations made for any fiscal year shall not exceed the total estimated revenues, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided by law.

Budgetary control resides at the functions/program level within the general fund. The Municipality also maintains an encumbrance accounting system as one method of maintaining budgetary control. The annual budgets include an estimate of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

During the fiscal year ended on June 30, 2014, this municipal administration has taken the necessary fiscal initiatives and extensive budgetary controls that allows the Municipality to finish for the second year with a surplus in the general fund.

During fiscal year 2014, the Municipality borrowed \$85.2 million from commercial banks through the issuance of Series E of the 2013 Municipal General Obligation Notes amounting to \$50.3 million, \$29.9 million and \$5 million respectively, for the purpose of providing working capital, financing capital projects and the financial resources needed to repay certain operating expenses.

The Municipality continues to be focused on various efforts to increase the Municipality's recurring revenue base. Redevelopment strategies are planned and executed in areas where economic activity and residential levels have plummeted. Initiatives for these areas include mix use development as to fulfill commercial and residential needs.

The objectives of these controls and initiatives were to stabilize the financial position, results of operations and cash flows of the Municipality while ensuring compliance with legal provisions embodied in the annual appropriated budgets approved by the Municipal Legislature.

More detailed information about the Municipality's budget and fiscal policies can be found in the accompanying management's discussion and analysis (MD&A), the notes to the basic financial statements, and the Budgetary Comparison Schedule presented in the Financial Section.



PROSPECTS FOR THE FUTURE

The Municipality is committed to pursue solutions to improve the competitive economic performance and the quality of life for its residents. The Municipality's economic development program includes initiatives aimed at producing more diversified and sustainable economic development. Five important elements of these initiatives are the following: (1) developing a world-class infrastructure, while encouraging private investment with innovative financial models and agile, effective evaluation processes; (2) accelerating the Municipality's entry into the knowledge economy by creating a center for excellence in biotechnology, engineering and computing; (3) promoting local enterprise and supporting local businesses by providing innovative financing alternatives and access to domestic and foreign markets; (4) transforming the Municipality's government, without the need to layoff or privatization, through effective consolidation of municipal agencies and decentralization functions to offer first-class services to all citizens in a sensible, effective and agile manner; and (5) refocused strategic projects related to the citizens' health.

CAPITAL ASSETS

The accompanying basic financial statements include the capital assets of the Municipality. A discussion and more detailed information about capital assets can also be found in the accompanying MD&A and the notes to the basic financial statements.

DEBT ADMINISTRATION

The Municipality has a number of debt issues outstanding at June 30, 2014. The Puerto Rico Municipal Financing Law of 1996 (Law 64-1996), limits the amount of debt service that can be incurred by the Municipality with respect to issued or guaranteed debt to 10 percent of the total assessed value of the property located within the Municipality, plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service. The Municipality is in compliance with the debt limitation requirements at June 30, 2014. See the computation of the legal debt margin in the statistical section of this report. More detailed information about long-term obligations can be found in the notes to the basic financial statements.

FINANCIAL ADVISOR AND FISCAL AGENT

The principal functions of the Government Development Bank for Puerto Rico (GDB) are to serve as financial advisor to and fiscal agent for the Municipality in connection with the issuance of bonds and notes. GDB is a component unit of the Commonwealth of Puerto Rico.

INDEPENDENT AUDIT

Chapter X of the Basic Standards Regulation issued by the Puerto Rico Municipal Affairs Commissioner requires the Municipality to have an annual financial audit of its basic financial statements performed by independent certified public accountants. This Comprehensive Annual Financial Report has the intention to fulfill such requirements.



HLB Parissi, P.S.C. was selected to perform the independent audit of the Municipality's basic financial statements, as of and for the fiscal year ended June 30, 2014, in accordance with government auditing standards generally accepted in the United States of America. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the Municipality for the fiscal year ended June 30, 2014 are fairly stated in accordance with GAAP. The independent auditors' report on the accompanying basic financial statements is included in the financial section of this report.

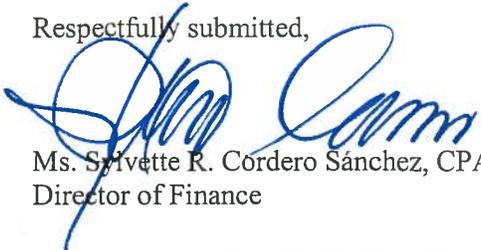
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ACKNOWLEDGEMENTS

The preparation of this report required the collective efforts of several municipal officials and employees of our Department of Finance, and our financial and management consultants. We sincerely appreciate the professionalism and dedication of these individuals. Due credit should also be given to the Honorable Carmen Yulín Cruz Soto, Mayor, for her unwavering support and commitment to better and improved fiscal and administrative policies.

This report confirms our commitment to maintain our basic financial statements in conformity with the highest standards of financial accountability.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Sylvette R. Cordero Sanchez".

Ms. Sylvette R. Cordero Sánchez, CPA
Director of Finance

**MUNICIPALITY OF SAN JUAN,
COMMONWEALTH OF PUERTO RICO**



ELECTED OFFICIALS

MAYOR

Hon. Carmen Yulín Cruz Soto

ELECTED MUNICIPAL LEGISLATURE

PRESIDENT

*Hon. Yolanda Zayas Santana

*Hon. Carlos R. Díaz Vélez	*Hon. Jimmy D. Zorrilla Mercado
*Hon. Marco A. Rigau Jiménez	*Hon. Javier Gutiérrez Aymat
*Hon. José E. Rosario Cruz	*Hon. Carlos Ávila Pacheco
*Hon. Yvette del Valle Soto	*Hon. Pedro Maldonado Meléndez
*Hon. Aixa Morell Perelló	*Hon. Antonia Pons Figueroa
*Hon. Claribel Martínez Marmolejos	*Hon. Elba A. Vallés Pérez
*Hon. Iván O. Puig Oliver	*Hon. Sara de la Vega Ramos
*Hon. Aníbal Rodríguez Santos	*Hon. Adrián González Costa

APPOINTED OFFICIALS

CITY ADMINISTRATOR

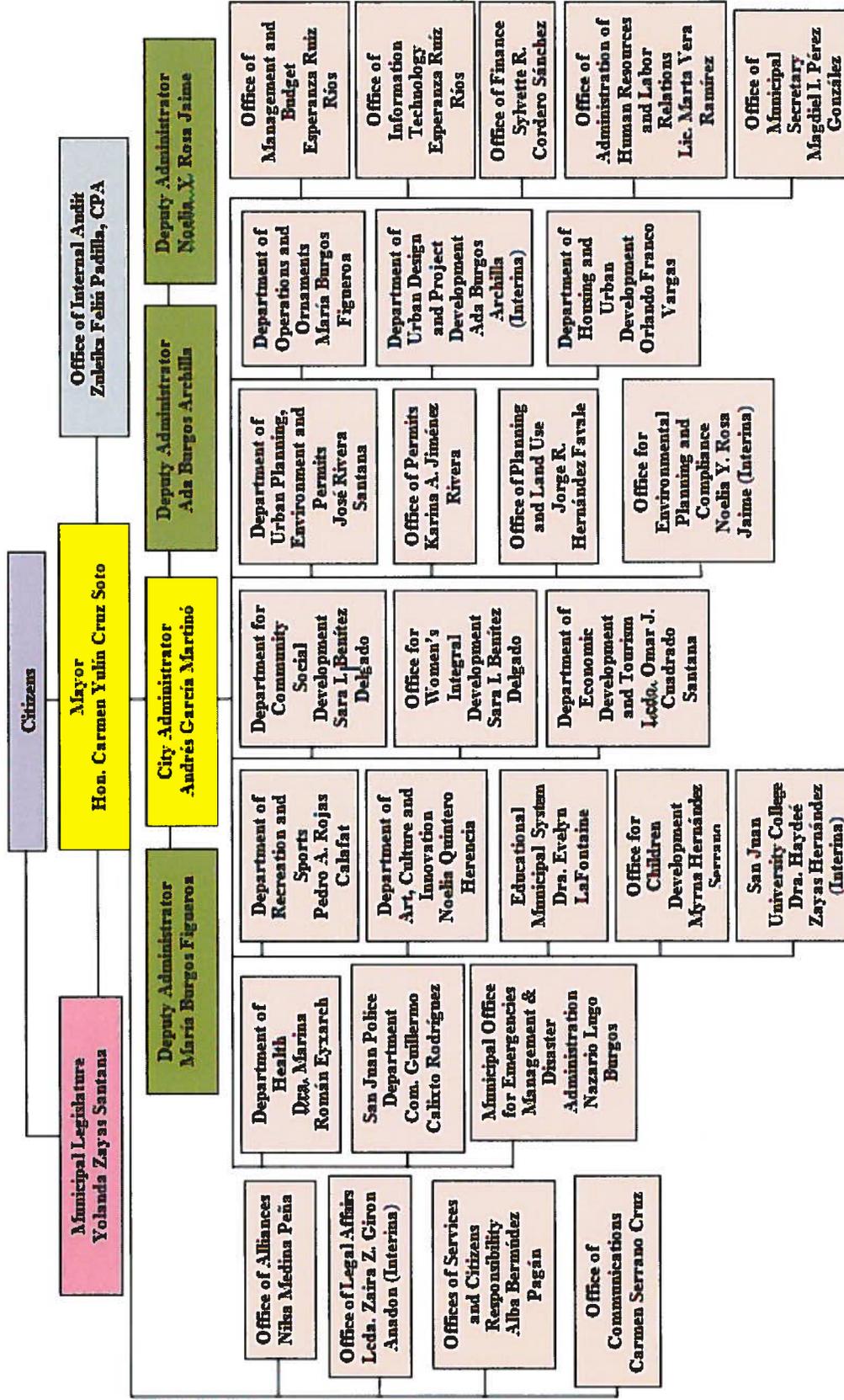
Andrés R. García Martínó

Deputy Administrator
María Burgos Figueroa

Deputy Administrator
Ada Burgos Archilla

Deputy Administrator
Noelia Y. Rosa Jaime

Municipality of San Juan
 (Commonwealth of Puerto Rico)
 Organizational Chart
 Fiscal Year Ended June 30, 2014



FINANCIAL SECTION

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan, San Juan, Puerto Rico (the Municipality) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of San Juan as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 17 and 76 through 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the Municipality's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying

accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.

HLB Parissi PSC

December 29, 2014
Stamp No. E88693 was affixed
to the original of this report
License No. 88 Exp. December 1, 2017



Municipality of San Juan
(Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014



The Management of the Municipality of San Juan (the Municipality) provides this discussion and analysis of the Municipality's financial position and results of operations for the fiscal year ended June 30, 2014.

Since this discussion and analysis is designed to focus on the current fiscal year activities, resulting changes and currently known facts, we suggest reading it in conjunction with the accompanying basic financial statements.

Financial Highlights

- Total assets decreased \$37.5 million (3.0% decrease) during the current fiscal year and amounted to \$1.2 billion at June 2014.
- Total liabilities decreased \$67.1 million (5.5% decrease) during the current fiscal year and amounted to \$1.1 billion at June 2014.
- Total deferred inflows of resources increased \$15.4 million (16.6% increase) during the current fiscal year and amounted to \$109.2 million at June 2014.
- Total net position increased \$14.1 million (27.4% increase) during the current fiscal year and amounted to \$32.7 billion (deficit) at June 2014.
- Total revenues increased \$12.8 million (1.9% increase) during the current fiscal year and amounted to \$683.9 million for the fiscal year ended June 2014.
- Total expenses increased \$6.3 million (0.9% increase) during the current fiscal year and amounted to \$665.2 million for the fiscal year ended June 2014.
- Total fund balances of governmental funds decreased \$9.7 million (4.9% decrease) during the current fiscal year and amounted to \$192.4 million at June 2014.
- Total fund balances of the general fund increased \$10.5 million (97.9% increase) during the current fiscal year and amounted to \$21.2 million at June 2014.
- During the fiscal year ended June 30, 2014, the Municipality borrowed \$85.2 million for the purposes of: (a) providing working capital to repay certain operating expenses and past due liabilities outstanding since 2012 (\$50.3 million), (b) obtaining the funding needed to pay the fourth installment of the 2007 early retirement termination benefit plan (\$29.9 million), and (c) financing the acquisition, construction and improvement of capital assets (\$5.0 million).

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.

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 using the accrual basis of accounting.

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

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

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

Fund Financial Statements

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

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

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

Proprietary fund – Proprietary funds are used to account for activities that operate more like those of business enterprises. Proprietary funds provide the same type of information as the business-type

Municipality of San Juan
(Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

activities in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There are no reconciling items between the government-wide financial statements and the proprietary fund financial statements. The only proprietary fund operated by the Municipality is the International Center. The basic proprietary fund financial statements can be found immediately following the governmental funds financial statements.

Notes to Basic Financial Statements

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

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.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

Condensed net position information is presented below (in thousands):

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
ASSETS						
Capital assets	\$ 648,846	\$ 662,252	\$ 51,815	\$ 52,724	\$ 700,661	\$ 714,976
Other assets	523,010	546,356	2,024	1,813	525,034	548,169
Total assets	1,171,856	1,208,608	53,839	54,537	1,225,695	1,263,145
LIABILITIES						
Current liabilities	197,380	248,350	1,757	1,729	199,137	250,079
Noncurrent liabilities	901,272	916,774	53,372	53,982	954,644	970,756
Total liabilities	1,098,652	1,165,124	55,129	55,711	1,153,781	1,220,835
DEFERRED INFLOWS OF RESOURCES	109,236	93,688	-	-	109,236	93,688
NET POSITION						
Net investment in capital assets	333,037	385,430	(2,167)	(1,827)	330,870	383,603
Restricted for:						
Debt service	88,330	78,670	-	-	88,330	78,670
Other purposes	16,557	20,333	-	-	16,557	20,333
Deficit	(473,956)	(534,637)	877	653	(473,079)	(533,984)
Total net position	\$ (36,032)	\$ (50,204)	\$ (1,290)	\$ (1,174)	\$ (37,322)	\$ (51,378)

The Municipality's total assets amounted to \$1,226 million at June 30, 2014, a decrease of \$37.3 million when compared with the prior fiscal year. The decrease in other assets of \$23.1 million is mainly due to the decrease of unrestricted cash and cash equivalents in commercial banks and restricted cash. The

Municipality of San Juan
(Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

reason for the decrease in cash and cash equivalents is mainly because the Municipality paid its accounts payable and accrued liabilities on a more timely basis.

The Municipality's total liabilities amounted to \$1,153.8 million at June 30, 2014, a decrease of \$67.1 million when compared with the prior fiscal year. The decrease is mainly due to a decrease in accounts payable and accrued liabilities during the current fiscal year, as available cash was used to pay these liabilities on a more timely basis.

The Municipality's deferred inflows of resources amounted to \$109.2 million at June 30, 2014, an increase of \$15.5 million when compared with prior year. The increase is mainly due to an increase of \$12.0 million in unearned intergovernmental grants and contributions and \$3.5 in unearned municipal license taxes. The increase of \$6.8 million (6.9% increase) in deferred inflows of resources related to municipal license taxes is mainly related to the increase of \$8.3 million of municipal license tax receivables not meeting the availability criteria for revenue recognition in the general fund since were not subsequently collected within ninety days after June 30, 2014. In addition, there was an increase in unearned intergovernmental grants is due to a grant provided by a corporation of the Commonwealth. In 2013 the grant was in process of being reassigned to another capital project and, therefore, was recorded as an intergovernmental payable pending approval by the granting authority.

The largest portion of the Municipality's net position is the deficit of \$473.1 million. The net position consist of the excess of assets and deferred outflows over related liabilities and deferred inflows that are not externally or legally restricted, or invested in capital assets. This deficit is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post closure costs, claims and judgments and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

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

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Changes in Net Position

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

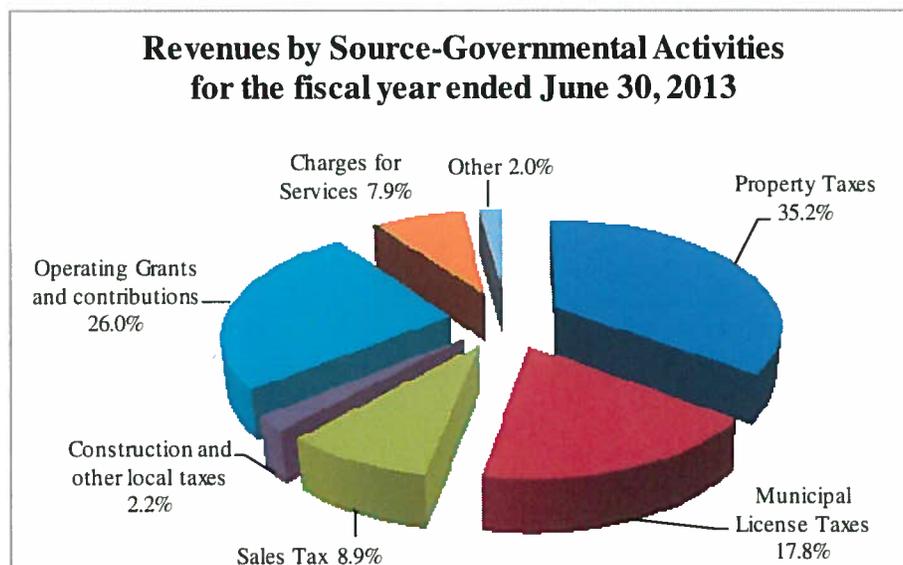
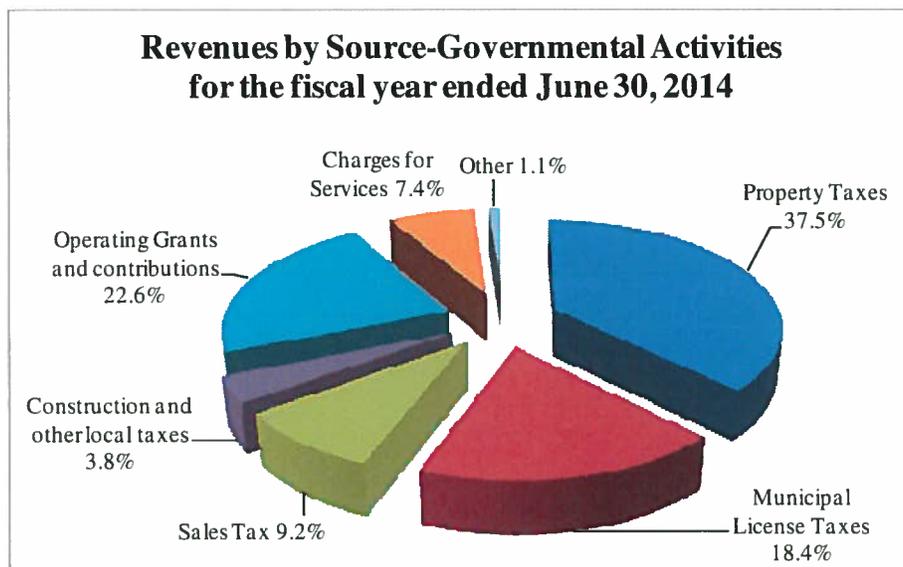
	Governmental activities		Business-type activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 50,100	\$ 52,580	\$ 2,529	\$ 2,180	\$ 52,629	\$ 54,760
Operating grants and contributions	101,103	130,184	-	-	101,103	130,184
Capital grants and contributions	12,100	5,051	-	-	12,100	5,051
General revenues:						
Property taxes	254,451	234,475	-	-	254,451	234,475
Municipal license taxes	124,654	118,402	-	-	124,654	118,402
Sales and usages taxes	62,341	59,633	-	-	62,341	59,633
Construction excise taxes	26,056	14,870	-	-	26,056	14,870
Intergovernmental grants and contributions, not restricted to specific programs	40,180	38,465	-	-	40,180	38,465
Interests on deposit	6,048	7,422	-	-	6,048	7,422
Miscellaneous revenues	1,397	5,883	2,904	1,967	4,301	7,850
Total revenues	<u>678,430</u>	<u>666,965</u>	<u>5,433</u>	<u>4,147</u>	<u>683,863</u>	<u>671,112</u>
Expenses:						
Program expenses:						
General government	114,752	108,723	-	-	114,752	108,723
Public safety	60,840	63,405	-	-	60,840	63,405
Urban affairs	139,051	81,715	-	-	139,051	81,715
Culture and recreation	24,640	23,910	-	-	24,640	23,910
Health and welfare	200,710	247,561	-	-	200,710	247,561
Urban development	6,882	52,388	-	-	6,882	52,388
Economic development	22,510	24,760	-	-	22,510	24,760
Education	53,965	19,589	-	-	53,965	19,589
Interests on long-term debt	40,908	36,572	-	-	40,908	36,572
International Center	-	-	5,549	4,887	5,549	4,887
Total expenses	<u>664,258</u>	<u>658,623</u>	<u>5,549</u>	<u>4,887</u>	<u>669,807</u>	<u>663,510</u>
Net increase (decrease) in net position	14,172	8,342	(116)	(739)	14,056	7,602
Net position at beginning of fiscal year	(50,204)	(58,546)	(1,174)	(435)	(51,378)	(58,981)
Net position at end of fiscal year	<u>\$ (36,032)</u>	<u>\$ (50,204)</u>	<u>\$ (1,290)</u>	<u>\$ (1,174)</u>	<u>\$ (37,322)</u>	<u>\$ (51,379)</u>

The Municipality's total revenues increased by approximately \$12.7 million. Approximately, 68.4% (63.7% in 2013) of the Municipality's total revenue came from taxes, while approximately 22.4% (25.9% in 2013) resulted from grants and contributions, including federal aid. Charges for services provided approximately 7.7% (8.2% in 2013) of the total revenues.

Revenues from taxes increased by approximately \$40.1 million. The increase on tax revenues result from new tax collection efforts implemented in fiscal year 2014 and the effect of changes to the sales and use tax laws in fiscal year 2014. Revenues from construction and other local taxes increased \$11.2 million due to the increase in construction projects mainly financed by the private sector.

Charges for services decreased by approximately \$2.1 million or 3.9% when compared with the prior fiscal year mainly related to the decrease in fines, penalties and forfeitures, which do not follow an specific economic trend or level from year to year, the decrease in revenues arising from municipal properties leased and the overall slight decrease in the economic activity in Puerto Rico during the current fiscal. The decrease in fines and penalties referred to previously is closely related to the Municipality's increased collection efforts implemented in the current year which minimized the rate of past-due tax receivables subject to fines and penalties, therefore, decreasing such revenues in the current year.

The following charts summarize the Municipality's revenues by sources for the governmental activities for the fiscal years ended June 30, 2014 and 2013.



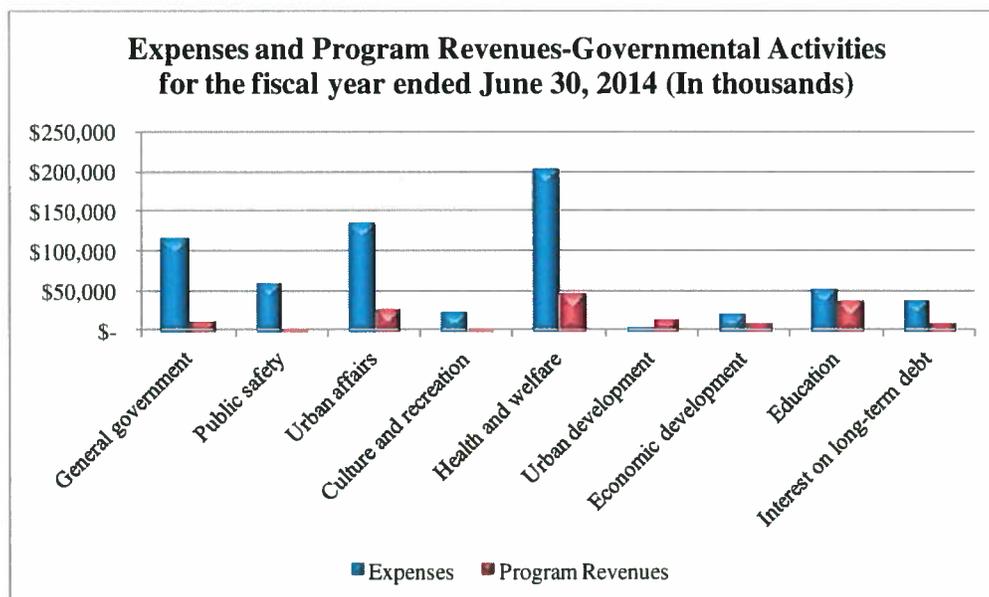
Municipality of San Juan
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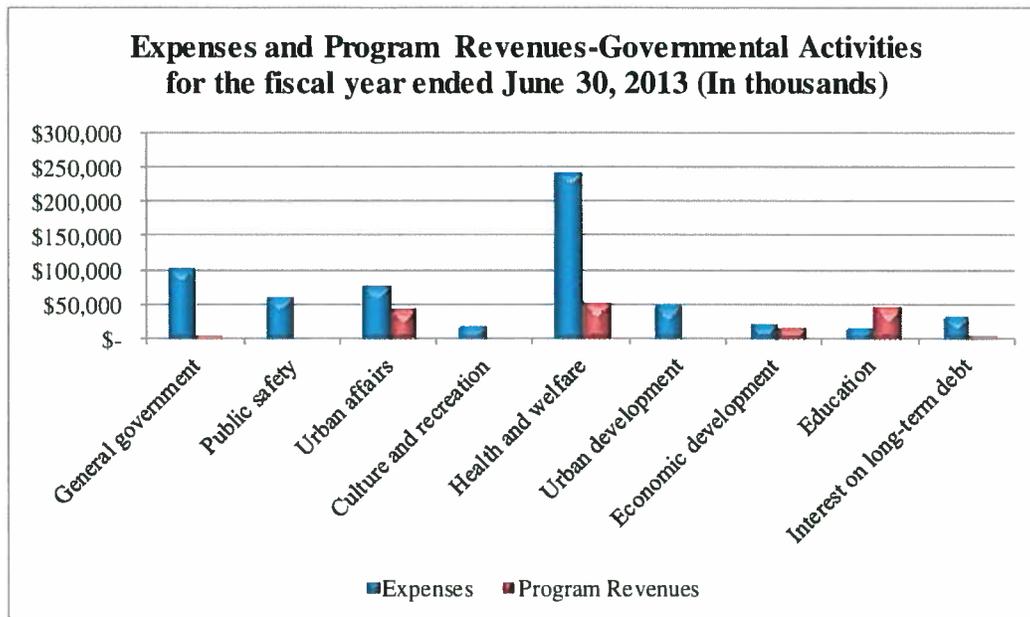
The Municipality's total expenses amounted to \$669.8 million and \$663.5 million for the fiscal years ended June 30, 2014 and 2013, respectively. The increase of \$6.0 million in general government expenses (6% increase) is mainly due to the effect of Act No. 32 of June 25, 2013, which required the Municipality to make a new additional uniform contribution of \$4.3 million to the employees' retirement system for the first time during the current fiscal year. The remaining increase of \$1.7 million (2.0% increase) in general government expenses is related to the overall inflationary effect over operating expenses in comparison with the prior fiscal year.

The increase of \$57.3 million in urban affairs expenses is mainly related to the decrease of \$45.5 million in urban development expenses. During the current fiscal year the Municipality adopted the urban affairs activity for budgetary purposes and consequently, in the accompanying financial statements. The urban affairs activity in the current fiscal year includes certain expenses previously reported within urban development expenses. The net increase in both combined activities amounted to \$7.2 million (5.4% increase) which is mainly related to increased urban-related services rendered to citizens and the overall inflationary effect over operating expenses in comparison with the prior fiscal year.

Health and welfare expenses decreased \$46.9 million mainly due to the increase of \$34.3 million in education expenses. During the current fiscal year, the Municipality reclassified certain education activities previously reported within health and welfare activities for budgetary and financial reporting purposes. In addition, the decrease in health and welfare expenses is related to closing of Las Antillas Municipal hospital during the current fiscal year.

The following chart summarizes the Municipality's program revenues compared to program expenses for the governmental activities for the fiscal years ended June 30, 2014 and 2013.





FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined fund balances of \$187.8 million, a net decrease of \$9.7 million in comparison with the prior year. The combined fund balances include nonspendable fund balances amounting to \$13.7 million at June 30, 2014. This is the portion of fund balances that cannot be spent readily with cash or is legally or contractually required not to be spent in the other governmental funds or they are not expected to be converted in cash soon enough to affect the current period. There are restricted fund balances amounting to \$190.7 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 (\$40.6 million); 2) to pay for capital projects (\$79.1 million; and 3) to pay for debt services (\$71.0 million).

Governmental funds include the General Fund, which is the main operating fund of the Municipality. As of June 30, 2014 and 2013, the general fund has an accumulated fund balance of \$21.2 million and \$10.7 million, respectively. Key factors in the increase of General Fund's balance are as follows:

- Increase of \$22.1 million in total revenues.
- Other financing sources and special item of \$76.5 million

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The increase of \$22.1 million in total revenues was mainly due to the increase of \$9.2 million, \$4.1 and \$1.5 million in construction taxes, sales and usage taxes and charges for services, respectively.

The increase in excise tax revenues in 2014 is due to increased audit efforts implemented in fiscal year 2014 in addition to various major private and public construction projects taking place in San Juan.

Intergovernmental payables decreased from \$19 million to \$4.5 million as a result of the Municipality's efforts renegotiating payment plans, prompt payments and renegotiating amounts due from prior years.

Deferred inflows for property taxes increased from \$20 million to \$30 million, or 50% based on the Municipality's application of the availability criteria for revenue recognition. During the year, the Municipality estimated that more property taxes were deemed unavailable for recognition.

The increase of \$37.7 million in expenditures was mainly due to increases in general government and debt service expenditures. The increase in general government results from the increase in contributions required for the employee retirement system.

Other financing sources amounting to \$76.5 million in the general fund result from the proceeds of long-term debt issued of approximately \$80.2 million and net transfers out of approximately \$4 million. Included in transfers to other governmental funds are \$6.4 from the debt service fund to the general fund as allowed by Act No. 64 of July 3, 1996, as amended. Act No. 64 allows municipalities that have interest earned over funds to repay general obligations bonds to transfer such interest income to the general fund for operating purposes. Also, there are transfers of \$3.9 million from capital improvements bond fund to general fund as a reimbursement for certain expenses incurred by general fund on behalf of these funds, net from transfers amounted to approximately \$12.9 million to federal programs and capital improvements bond fund to cover certain expenditures.

The increase in debt sources of the general fund is caused by the payment of a credit line during the year.

The fund balance of the debt service fund as of June 30, 2014 and 2013 amounted to \$71.0 million and \$63.7 million, respectively. The increase of \$7.2 million in the fund balance of the debt service fund is the result of revenues from the special ad valorem tax and intergovernmental grant and contributions restricted for debt service and accounted for in the debt service fund of \$99.2 million net of payment of principal and interest of \$92.0 million and the above mentioned transfer to the general fund for operating purposes.

In the capital improvements bond fund, cash decreased \$25.8 million as funds were used in capital improvement projects. Interfund balances with decreased as the fund satisfied the amounts owed to the general fund. The decrease of capital outlay of \$23 million, 46% is in line with the completion of capital improvement projects during 2014.

Proprietary Fund

The proprietary fund financial statements present the financial position, results of operations and cash flows of the International Center fund, which accounts for the leasing operations and maintenance of a real estate property.

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At June 30, 2014, the total assets of the proprietary fund amounted to \$53.8 million of which \$51.8 million represents capital assets, net of accumulated depreciation, while \$1.8 million represents cash in commercial banks. The total liabilities at year-end amounted to \$55.1 million, consisting principally of revenue bonds payable of \$53.9 million and interest payable of \$1.1 million.

Revenues of the leased facilities have decreased as the former tenant declared bankruptcy, and has defaulted in rent payments. The Municipality is currently under negotiations with new potential tenants to increase the rent revenue and use of the facilities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Municipality approved an original budget for the General Fund of \$476.7 million. During the year, there was one amendment to reclassify appropriations among different activities that were identified during the course of the fiscal year based on current developments that affected the Municipality's finances. In addition, there were transfers of appropriations between the original and final budget due to changes in departments' budgeted expenditures. On the budgetary basis, actual revenues of the General Fund for the fiscal year ended June 30, 2014 were \$527.2 million while actual expenditures were \$512.5 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2014 and 2013 amounted to approximately \$701.8 million and \$715 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.

	Governmental		Business-type		Totals (in thousands)	
	activities (in thousands)		activities (in thousands)		2014	2013
	2014	2013	2014	2013	2014	2013
Land and improvements	\$ 123,271	\$ 123,271	\$ 18,600	\$ 18,600	\$ 141,871	\$ 141,871
Works of art and historical treasures	2,224	2,224	-	-	2,224	2,224
Buildings and building improvements	220,965	236,753	33,214	34,124	254,179	270,877
Site improvements	57,007	62,353	-	-	57,007	62,353
Infrastructure	187,692	189,049	-	-	187,692	189,049
Equipment and vehicles	20,617	19,727	-	-	20,617	19,727
Construction in progress	37,252	28,875	-	-	37,252	28,875
Total	\$ 649,028	\$ 662,252	\$ 51,814	\$ 52,724	\$ 700,842	\$ 714,976

The decrease in the Municipality's capital assets was 1.9% under last year. Actual expenditures to purchase or construct capital assets from the Municipality's governmental activities for the fiscal years ended June 30, 2014 and 2013 were \$29.2 million and \$51.1 million, respectively. Depreciation charges from the Municipality's governmental and business-type activities amounted to \$43.3 million and \$42.0 million for the fiscal years ended June 30, 2014 and 2013, respectively.

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Management's Discussion and Analysis
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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, 2014 and 2013, the Municipality has approximately \$5.0 million and \$18.7 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 estimated total net assessed valuation of real and personal property in San Juan of approximately \$26.6 billion at June 30, 2014, the legal debt limit margin of the Municipality was \$2.6 billion at the end of the current fiscal year. The Municipality's available legal debt margin as of June 30, 2014, was calculated by GDB to equal \$2.3 billion after subtracting from the legal margin the amount of \$436.6 million in outstanding general obligation debt as of June 30, 2014, and adding to the legal margin the amount in its Redemption Fund of \$71.0 million as of June 30, 2014.

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

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

During fiscal year 2014, the Municipality issued bonds and notes amounting to \$85.2 million to provide for construction projects and equipment needs of the Municipality, and finance the current portion of an early retirement termination benefit. General obligation debt includes bonds, notes and mortgage as shown in the table below, in thousands:

Municipality of San Juan
 (Commonwealth of Puerto Rico)
 Management's Discussion and Analysis
 Fiscal Year Ended June 30, 2014

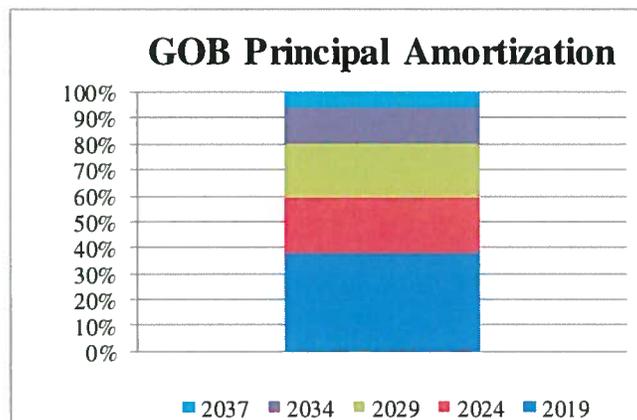
	Governmental activities		Business-type activities		Totals	
	2014	2013	2014	2013	2014	2013
Bonds payable	\$ 436,591	\$ 479,437	\$ -	\$ -	\$ 436,591	\$ 479,437
Notes payable	442,056	401,170	-	-	442,056	401,170
Revenue bonds	-	-	53,982	54,552	53,982	54,552
Mortgage payable	2,622	3,062	-	-	2,622	3,062
Total	\$ 881,269	\$ 883,669	\$ 53,982	\$ 54,552	\$ 935,251	\$ 938,221

At June 30, 2014, the Municipality had \$436.6 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 Years Increments Following Fiscal Year 2014
 (In thousands)**

Fiscal Years	Principal Amortization
2015-2019	\$ 165,255
2020-2024	92,319
2025-2029	91,601
2030-2034	62,591
2035-2037	24,825
Total	\$ 436,591

As can be seen in the following chart, approximately 80.0% of the Municipality's outstanding general obligation bonds will be retired within the next fifth teen (15) years.



The Municipality has various outstanding notes payable amounting to \$442.1 million at June 30, 2014. Those notes payable were mainly issued for the acquisition, construction or improvement of capital assets and for working capital purposes. These outstanding notes payable will be paid with unrestricted property tax revenues and financial resources arising from sales taxes recorded in the debt service fund. During the fiscal year ended June 30, 2014, notes payable were issued.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable. On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 7, known as the Fiscal Emergency Act, for the purpose of stabilizing the financial condition of the central government by requiring the implementation of a cost reduction program, including payroll cost. The broad effect of the implementation of these measures cannot be presently determined at June 30, 2014. These factors were considered when preparing the Municipality's budget for the 2014-2015 fiscal years.

FINANCIAL CONTACT

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



Municipality of San Juan
(Commonwealth of Puerto Rico)
Statement of Net Position
June 30, 2014

	Governmental activities	Business- type activities	Total
ASSETS			
Cash and cash equivalents in commercial banks	\$ 137,104,109	\$ -	\$ 137,104,109
Restricted assets:			
Cash in commercial banks	40,315,469	1,840,691	42,156,160
Cash with fiscal agent	250,720,337	-	250,720,337
Accounts receivable:			
Property taxes	48,039,038	-	48,039,038
Municipal license taxes	9,861,697	-	9,861,697
Sales and usage taxes	8,003,118	-	8,003,118
Construction excise taxes	4,961,994	-	4,961,994
Intergovernmental grants and contributions	10,026,307	-	10,026,307
Miscellaneous receivables	7,300,277	-	7,300,277
Loans receivable, net of allowance for loan losses	4,680,342	-	4,680,342
Other unrestricted assets	1,998,075	-	1,998,075
Internal balances	(183,600)	183,600	-
Capital assets not being depreciated	162,748,078	18,600,000	181,348,078
Capital assets being depreciated, net of accumulated depreciation	486,280,428	33,214,405	519,494,833
Total assets	<u>1,171,855,669</u>	<u>53,838,696</u>	<u>1,225,694,365</u>
LIABILITIES			
Accounts payable and accrued liabilities	100,879,385	-	100,879,385
Accrued interests on bonds and notes	17,189,302	1,147,116	18,336,418
Intergovernmental payables	4,514,064	-	4,514,064
Noncurrent liabilities:			
Due within one fiscal year	74,797,171	610,000	75,407,171
Due in more than one fiscal year	901,271,868	53,371,940	954,643,808
Total liabilities	<u>1,098,651,790</u>	<u>55,129,056</u>	<u>1,153,780,846</u>
DEFERRED INFLOWS OF RESOURCES			
Municipal license taxes	97,235,960	-	97,235,960
Intergovernmental grants and contributions	12,000,000	-	12,000,000
Total deferred inflows of resources	<u>109,235,960</u>	<u>-</u>	<u>109,235,960</u>
NET POSITION			
Net investment in capital assets	333,037,011	(2,167,535)	330,869,476
Restricted for:			
Debt service	88,329,858	-	88,329,858
Other purposes	16,557,413	-	16,557,413
Unrestricted (deficit)	(473,956,363)	877,175	(473,079,188)
Total net position	<u>\$ (36,032,081)</u>	<u>\$ (1,290,360)</u>	<u>\$ (37,322,441)</u>

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Statement of Activities
Fiscal Year Ended June 30, 2014

Functions/Programs	Program revenues				Net revenues (expenses) and changes in net position		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
<i>Governmental activities:</i>							
General government	\$ 114,752,658	\$ 3,203,678	\$ 9,689,347	\$ -	\$ (101,859,633)	-	\$ (101,859,633)
Public safety	60,840,546	985,799	3,203,561	-	(56,651,186)	-	(56,651,186)
Urban affairs	139,050,823	40,673	28,769,650	-	(110,240,500)	-	(110,240,500)
Culture and recreation	24,639,844	1,180,781	1,102,775	-	(22,356,288)	-	(22,356,288)
Health and welfare	200,710,231	32,717,879	14,424,119	-	(153,568,233)	-	(153,568,233)
Urban development	6,881,842	2,315,772	158,816	12,099,640	7,692,386	-	7,692,386
Economic development	22,509,693	6,006,089	4,781,665	-	(11,721,939)	-	(11,721,939)
Education	53,964,694	3,649,766	33,570,385	-	(16,744,543)	-	(16,744,543)
Interests on long-term debt	40,907,845	-	5,403,085	-	(35,504,760)	-	(35,504,760)
Total governmental activities	664,258,177	50,100,437	101,103,403	12,099,640	(500,954,697)	-	(500,954,697)
<i>Business-type activities:</i>							
International Center	5,549,213	2,528,865	-	-	-	(3,020,348)	(3,020,348)
Total	\$ 669,807,390	\$ 52,629,302	\$ 101,103,403	\$ 12,099,640	(500,954,697)	(3,020,348)	(503,975,045)
<i>General revenues:</i>							
Property taxes					254,451,248	-	254,451,248
Municipal license taxes					124,654,089	-	124,654,089
Sales and usage taxes					62,341,300	-	62,341,300
Construction excise taxes					26,055,341	-	26,055,341
Intergovernmental grants and contributions, not restricted to specific programs					40,180,055	-	40,180,055
Interests on deposits					6,048,121	-	6,048,121
Miscellaneous revenues					4,300,997	-	4,300,997
Transfers					(2,904,232)	2,904,232	-
Total general revenues					515,126,919	2,904,232	518,031,151
Net increase (decrease) in net position					14,172,222	(116,116)	14,056,106
Net position at beginning of fiscal year					(50,204,303)	(1,174,244)	(51,378,547)
Net position at end of fiscal year					\$ (36,032,081)	\$ (1,290,360)	\$ (37,322,441)

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Balance Sheet - Governmental Funds
June 30, 2014

	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	Total
ASSETS					
Cash and cash equivalents in commercial banks	\$ 137,104,109	\$ -	\$ -	\$ -	\$ 137,104,109
Accounts receivable:					
Property taxes	30,674,442	17,364,596	-	-	48,039,038
Municipal license taxes	9,861,697	-	-	-	9,861,697
Sales and usage taxes	7,138,427	864,691	-	-	8,003,118
Construction excise taxes	4,961,994	-	-	-	4,961,994
Intergovernmental grants and contributions	1,548,517	-	18,000	8,459,790	10,026,307
Due from other governmental funds	23,895,760	-	-	8,511,523	32,407,283
Miscellaneous receivables	6,985,370	6,525	-	308,382	7,300,277
Loans receivable, net of allowance for loan losses	-	-	-	4,680,342	4,680,342
Other unrestricted assets	1,147,545	-	-	850,530	1,998,075
Restricted assets:					
Cash in commercial banks	9,020,854	-	8,638,338	22,656,277	40,315,469
Cash with fiscal agent	5,055,412	147,940,089	85,240,167	12,484,669	250,720,337
Total assets	<u>\$ 237,394,127</u>	<u>\$ 166,175,901</u>	<u>\$ 93,896,505</u>	<u>\$ 57,951,513</u>	<u>\$ 555,418,046</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 64,689,520	\$ -	\$ 7,792,054	\$ 10,060,637	\$ 82,542,211
Intergovernmental payables	4,514,064	-	-	-	4,514,064
Due to other governmental funds	-	6,307,316	7,049,516	19,050,451	32,407,283
Due to proprietary fund	183,600	-	-	-	183,600
Bonds payable	-	38,198,000	-	-	38,198,000
Notes payable	-	16,170,000	-	-	16,170,000
Interests payable	-	17,170,727	-	18,575	17,189,302
Total liabilities	<u>69,387,184</u>	<u>77,846,043</u>	<u>14,841,570</u>	<u>29,129,663</u>	<u>191,204,460</u>
DEFERRED INFLOWS OF RESOURCES					
Property taxes	30,674,442	17,364,596	-	-	48,039,038
Municipal license taxes	105,507,217	-	-	-	105,507,217
Sales and usage taxes	2,618,850	-	-	-	2,618,850
Construction excise taxes	4,416,389	-	-	-	4,416,389
Charges for services	1,825,006	-	-	-	1,825,006
Intergovernmental grants and contributions	1,789,983	-	-	12,264,437	14,054,420
Total deferred inflows of resources	<u>146,831,887</u>	<u>17,364,596</u>	<u>-</u>	<u>12,264,437</u>	<u>176,460,920</u>
FUND BALANCES					
Nonspendable	8,197,061	-	-	5,530,872	13,727,933
Restricted	14,076,266	70,965,262	79,054,935	26,573,561	190,670,024
Deficit	(1,098,271)	-	-	(15,547,020)	(16,645,291)
Total fund balances	<u>21,175,056</u>	<u>70,965,262</u>	<u>79,054,935</u>	<u>16,557,413</u>	<u>187,752,666</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 237,394,127</u>	<u>\$ 166,175,901</u>	<u>\$ 93,896,505</u>	<u>\$ 57,951,513</u>	<u>\$ 555,418,046</u>

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position
June 30, 2014

Total fund balances as reported in the balance sheet - governmental funds. \$ 187,752,666

Capital assets, net, used in governmental activities are not considered current available financial resources and, therefore, are not reported as assets in the governmental funds financial statements. 649,028,506

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

Property taxes	48,039,038
Municipal license taxes	8,271,257
Sales and usage taxes	2,618,850
Construction excise taxes	4,416,389
Charges for services	1,825,006
Intergovernmental grants and contributions	2,054,420
Total	67,224,960

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

Accounts payable and accrued liabilities	(18,337,174)
Bonds payable	(398,393,000)
Mortgage payable	(2,622,369)
Notes payable	(425,885,778)
Compensated absences	(60,918,484)
Pension-related debt	(3,690,106)
Claims and judgments	(4,303,978)
Self-insurance claim liability	(10,423,434)
Estimated liability for municipal solid waste landfill postclosure care costs	(15,463,890)
Total	(940,038,213)

Total net position of governmental activities \$ (36,032,081)

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds
Fiscal Year Ended June 30, 2014

	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	Total
REVENUES:					
Property taxes	\$ 151,988,766	\$ 89,434,469	\$ -	\$ -	\$ 241,423,235
Municipal license taxes	121,433,922	-	-	-	121,433,922
Sales and usage taxes	51,613,412	9,709,193	-	-	61,322,605
Construction excise taxes	22,868,151	-	-	-	22,868,151
Charges for services	50,038,095	-	-	9,728	50,047,823
Interests on deposits	985,104	103,914	4,120,857	838,246	6,048,121
Intergovernmental grants and contributions:					
Federal	-	-	-	111,375,440	111,375,440
Local	40,180,055	-	540,200	813,674	41,533,929
Miscellaneous revenues	3,338,877	-	25,721	936,399	4,300,997
Total revenues	<u>442,446,382</u>	<u>99,247,576</u>	<u>4,686,778</u>	<u>113,973,487</u>	<u>660,354,223</u>
EXPENDITURES:					
Current:					
General government	106,988,288	-	-	9,727,722	116,716,010
Public safety	53,947,062	-	-	2,994,590	56,941,652
Urban affairs	78,375,631	-	4,629,043	44,028,386	127,033,060
Culture and recreation	14,106,253	-	-	1,261,275	15,367,528
Health and welfare	182,278,822	-	-	14,537,718	196,816,540
Urban development	7,039,058	-	-	158,816	7,197,874
Economic development	12,219,592	-	-	4,643,083	16,862,675
Education	14,556,319	-	-	38,053,039	52,609,358
Capital outlays	-	-	26,538,942	2,629,307	29,168,249
Debt service:					
Principal	30,859,664	54,368,000	-	4,344,312	89,571,976
Interests	8,089,349	34,216,614	-	1,738,363	44,044,326
Total expenditures	<u>508,460,038</u>	<u>88,584,614</u>	<u>31,167,985</u>	<u>124,116,611</u>	<u>752,329,248</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(66,013,656)</u>	<u>10,662,962</u>	<u>(26,481,207)</u>	<u>(10,143,124)</u>	<u>(91,975,025)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from issuance of notes	80,185,000	-	5,035,000	-	85,220,000
Transfers from other governmental funds	12,103,415	2,981,509	4,709,280	13,591,370	33,385,574
Transfers to other governmental funds	(12,897,495)	(6,391,526)	(6,872,258)	(7,224,295)	(33,385,574)
Transfers to proprietary fund	(2,904,232)	-	-	-	(2,904,232)
Total other financing sources (uses), net	<u>76,486,688</u>	<u>(3,410,017)</u>	<u>2,872,022</u>	<u>6,367,075</u>	<u>82,315,768</u>
NET INCREASE (DECREASE) IN FUND BALANCES	10,473,032	7,252,945	(23,609,185)	(3,776,049)	(9,659,257)
FUND BALANCES AT BEGINNING OF FISCAL YEAR	10,702,024	63,712,317	102,664,120	20,333,462	197,411,923
FUND BALANCES AT END OF FISCAL YEAR	<u>\$ 21,175,056</u>	<u>\$ 70,965,262</u>	<u>\$ 79,054,935</u>	<u>\$ 16,557,413</u>	<u>\$ 187,752,666</u>

See notes to basic financial statements.

Municipality of San Juan

(Commonwealth of Puerto Rico)

Reconciliation of the Statements of Revenues, Expenditures and Changes in

Fund Balances – Governmental Funds to the Statement of Activities

Fiscal Year Ended June 30, 2014

Net decrease in fund balances as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds. \$ (9,659,257)

Amounts for governmental activities reported in the governmental funds financial statements differ from the amounts reported in the statement of activities for the following reasons:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized allocated over their estimated useful lives through depreciation expense. The following is the excess of capital outlays over depreciation expense:

Capital outlays expenditures - capitalizable assets	29,168,249
Depreciation expense	<u>(42,392,104)</u>
Total	<u>(13,223,855)</u>

The proceeds from issuance of notes payable provide current available financial resources and, accordingly, are recorded as other financing sources in the governmental funds. However, such proceeds increase the outstanding balance of notes payable in the statement of net position. (85,220,000)

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

Bonds and notes payable	89,132,664
Mortgage payable	<u>439,312</u>
Total	<u>89,571,976</u>

The following is the net change in deferred inflows of resources of revenue streams that are reported as revenues for government-wide reporting in the statement of activities while are deferred in the governmental funds as considered unavailable under the modified accrual basis of accounting:

Property taxes	13,028,013
Municipal license taxes	3,220,167
Sales and usage taxes	1,018,695
Construction excise taxes	3,187,190
Charges for medical services	52,614
Intergovernmental grants and contributions	<u>473,729</u>
Total	<u>20,980,408</u>

Some expenses reported in the statement of activities do not require the use of current available financial resources and, therefore, are not reported as expenditures in the governmental funds. Those expenses are related to the net change in the following assets and long-term obligations:

Accounts payable and accrued liabilities	(1,303,068)
Accrued christmas bonus	109,477
Accrued interests payable	3,136,481
Self-Insurance claim liability	(5,141,626)
Pension-related debt	4,820,947
Claims and judgments	9,858,335
Estimated liabilities for municipal solid waste landfill	
postclosure care cost	736,376
Compensated absences	<u>(493,972)</u>
Total	<u>11,722,950</u>

Net increase in net position-governmental activities \$ 14,172,222

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Statement of Net Position – Proprietary Fund
June 30, 2014

	<u>International Center</u>
ASSETS	
Current assets:	
Restricted cash in commercial banks	\$ 1,840,691
Due from general fund	<u>183,600</u>
Total current assets	<u>2,024,291</u>
Noncurrent assets:	
Capital assets not being depreciated	18,600,000
Capital assets being depreciated, net	<u>33,214,405</u>
Total noncurrent assets	<u>51,814,405</u>
Total assets	<u>\$ 53,838,696</u>
LIABILITIES	
Current liabilities:	
Accrued interest payable on revenue bonds	<u>\$ 1,147,116</u>
Noncurrent liabilities:	
Due within one year	610,000
Due in more than one year	<u>53,371,940</u>
Total noncurrent liabilities	<u>53,981,940</u>
Total liabilities	<u>55,129,056</u>
NET POSITION	
Net investment in capital assets	(2,167,535)
Unrestricted	<u>877,175</u>
Deficit	<u>\$ (1,290,360)</u>

See notes to basic financial statements.

Municipality of San Juan**(Commonwealth of Puerto Rico)***Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund**Fiscal Year Ended June 30, 2014*

	<u>International Center</u>
Operating revenues - rental income	\$ 2,528,865
Operating expenses:	
General, maintenance and administrative	2,344,981
Depreciation expense	<u>910,000</u>
Total operating expenses	<u>3,254,981</u>
Net operating loss	(726,116)
Non-operating revenue (expenses):	
Interests on revenue bonds	(2,294,232)
Transfers from general fund	<u>2,904,232</u>
Net change in deficit	(116,116)
Deficit at beginning of fiscal year	<u>(1,174,244)</u>
Deficit at end of fiscal year	<u>\$ (1,290,360)</u>

See notes to basic financial statements.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Statement of Cash Flows - Proprietary Fund
Fiscal Year Ended June 30, 2014

	International Center
CASH FLOWS FROM OPERATING ACTIVITIES:	
Collections from tenants	\$ 2,527,065
Other collections	1,800
Payments to suppliers	(2,344,981)
Net cash provided by operating activities	<u>183,884</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Transfers from general fund	<u>2,720,632</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES:	
Debt service on capital-related revenue bonds:	
Principal paid	(570,000)
Interests paid	(2,306,345)
Net cash used in capital and related financing activities	<u>(2,876,345)</u>
NET INCREASE IN RESTRICTED CASH IN COMMERCIAL BANKS	28,171
RESTRICTED CASH IN COMMERCIAL BANKS AT BEGINNING OF FISCAL YEAR	<u>1,812,520</u>
RESTRICTED CASH IN COMMERCIAL BANKS AT END OF FISCAL YEAR	<u>\$ 1,840,691</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (726,116)
Adjustment to reconcile net operating income to net cash provided by operating activities-depreciation expense	<u>910,000</u>
Net cash provided by operating activities	<u>\$ 183,884</u>

See notes to basic financial statements.

1. GOVERNMENT AND FINANCIAL REPORTING ENTITY

a. Government Background Information

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

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

b. Basis of Presentation and Financial Reporting Entity

The accompanying basic financial statements present the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2014, the respective changes in financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2014, and the cash flows of the proprietary fund for the fiscal year ended June 30, 2014 in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Municipality's basic financial statements consist of: (1) the management's discussion and analysis (MD&A), a narrative that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities, (2) the government-wide financial statements, (3) the governmental and proprietary fund financial statements, (4) the notes to the basic financial statements, and (5) the required supplemental budgetary comparison schedule of the general fund and the related notes to the budgetary comparison schedule.

a. Government-wide Financial Statements

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

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of

available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

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

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

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

The Municipality has reported the following types of restricted net position in the accompanying statement of net position as of June 30, 2014:

- a. ***Debt service*** – Represent net resources restricted by bond indentures, debt covenants or certain laws and regulations to cover the debt service payments of bonds and notes payable.
- b. ***Other purposes*** – Represent net resources externally restricted by grantors, contributors, creditors or certain laws and regulations to cover specific program purposes related to certain federal and state grants and contributions.

- 3) ***Unrestricted Net Position*** – Generally, this category consists of the excess of assets and deferred outflows of resources over related liabilities and deferred inflows of resources that are neither externally nor legally restricted, neither invested in capital assets. However, at June 30, 2014, this net position category has a negative balance of \$473 million because liabilities and deferred inflows of resources exceeded the related assets.

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

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

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

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

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: the net cost of the function/program that must be financed from the Municipality's general revenues or the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities reports the following categories of program revenues for the fiscal year ended June 30, 2014:

- 1) ***Charges for Services*** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- 2) ***Program-Specific Operating and Capital Grants and Contributions*** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted

for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

The effects of all inter-fund governmental activities have been eliminated from the accompanying statements of net position and activities. Residual balances outstanding between the governmental activities and business-type activities are reported as internal balances.

b. Governmental Fund Financial Statements

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

The focus of the GFFS is on major governmental funds, which are determined using a predefined percentage of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures of either the fund category or the governmental and proprietary funds combined. Accordingly, the Municipality presents its governmental funds between major and non-major categories. Major individual governmental funds are reported individually as separate columns, while data from all non-major governmental funds are aggregated into a single column.

The Municipality reported the following major governmental funds:

- 1) ***General Fund*** – Is the Municipality's main operating fund and is used to account for and report all financial resources of governmental activities, except for those required to be accounted for in another governmental fund.
- 2) ***Debt Service Fund*** – The debt service fund is used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years.

- 3) ***Capital Improvements Bond Fund*** – The capital improvements bond fund is used to account for the financial resources arising mainly from bonds and notes issuance proceeds used in the acquisition, construction or improvement of major capital assets. The most significant transactions of this fund are related to the proceeds on the issuance of bonds and capital outlays.

Nonmajor governmental funds are reported within a single column and include several special revenue funds. These funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The Municipality report fund balance amounts based on the extent to which the Municipality is bound to observe constraints imposed upon the use of resources in the governmental funds. The classifications are as follows:

- 1) ***Nonspendable*** – Amounts that are not in a spendable form or contractually required to be maintained intact.
- 2) ***Restricted*** – Amounts that are legally restricted by outside parties, constitutional provisions, enabling legislation.
- 3) ***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.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources.

c. Proprietary Fund Financial Statements

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

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

- 1) ***Government-wide Financial Statements*** – The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues from property tax, municipal license tax and sales and usage tax are

recognized in the fiscal year for which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

Derived tax revenue, such as (municipal license taxes, sales and usage taxes and construction excise taxes) result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange occurs.

Imposed non-exchange revenue transactions (such as property taxes), result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transactions. Receivables are generally recorded in the period when an enforceable legal claim has arisen.

Property taxes, municipal license, sales and usage taxes, and construction excise taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

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. Revenue is, therefore, generally recognized as qualifying reimbursable expenditure is incurred.

Donations and certain grants and entitlements from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. Receivables and revenues are generally accounted for in the same manner as Intergovernmental grants. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

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

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

- 2) **Governmental Fund Financial Statements** – The governmental fund financial statements use the current financial resources measurement focus 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 usage taxes, intergovernmental grants and contributions and certain charges for services) to be available if collected within ninety (90) days after year end, except for property taxes for which the availability period is generally sixty (60) days. Revenue sources not meeting this availability criterion or collected in advance are recorded as unearned revenues within deferred inflows of resources.

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

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

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

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

The Municipality generally accrues a governmental fund liability and expenditure in the period in which the Municipality incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with

current available financial resources. Following are certain exceptions to the modified accrual basis of accounting:

- a. Principal and interest on bonds and notes payable are recorded as expenditures as of year-end when resources have been segregated for their payment when due. Amounts due on July 1 have been recognized as liabilities at June 30 in the debt service fund.
- b. Compensated absences, pension-related debt, claims and judgments, estimated liability for municipal solid waste landfill post-closure care cost and other long-term liabilities are recorded only when they mature (when payment is due).
- c. Certain accrued liabilities not due and payable (unmatured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds (except debt and related interest in the debt service fund) when they mature and consist of mortgage and notes payable, compensated absences, pension-related debt, claims and judgment, landfill obligation and other long-term liabilities.

- 3) **Proprietary Fund Financial Statements** – The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is received or paid. The statement of revenue, expenses and changes in net position distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The major operating revenue of the Municipality's proprietary fund is from rent charges collected by the International Center fund from its warehousing and leasing facilities.

e. Stewardship, Compliance and Accountability

Budgetary Control

The Municipality prepares its annual budget for all of its operations and activities. Such legally adopted budget is based on expected expenditures by the program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with

all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 13.

The Municipal Legislature has 10 business days, but not later than June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it.

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

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

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

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

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

Budgetary Accounting

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

accounting, revenue is generally recorded when cash is received. Borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying supplemental budgetary comparison schedule – general fund provides information about the general fund’s original budget, its amendments, and the actual results of operations of the general fund under the budgetary basis of accounting for the ensuing fiscal year.

At June 30, 2014, the Municipality has outstanding encumbrances in the general fund amounting \$36.1 million.

f. Assets, liabilities and net position

1) Cash Equivalents

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

2) Receivables and Payables

Receivables consist of all revenues earned but not collected at year-end. These accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable. Intergovernmental grants and contributions receivables represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

3) Loans Receivable and Allowance for Loan Losses

Loans receivable amounting to \$4.7 million are stated at their unpaid principal balances, net of the allowance for loan losses and deferred loan fees. Loan fees are recognized as income over the contractual term of the loan using the effective interest method. The carrying amount of loans receivable is reduced by an allowance for loan losses which is

maintained at a level that the Municipality considers adequate to absorb credit losses inherent in the loan portfolio.

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

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

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

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

4) Other Unrestricted Assets

Other unrestricted assets consist principally of prepaid insurance, medical supplies inventories used in providing health care services to patients, and office supplies held for consumption that are stated at the lower of cost (first-in, first-out method) or market. Supplies inventories and prepaid insurance are capitalized at the time of purchase for the entire amount of the purchase/prepayment and are charged to expense/expenditure as consumed in the governmental fund financial statements and the statement of activities, respectively.

5) Capital Assets

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

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost of \$5,000 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under

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\$5,000 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as expenditures in the acquiring fund.

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

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

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

<u>Description</u>	<u>Years</u>
Buildings	40
Building and site improvements	15
General infrastructure	40
Intangible assets (computer software)	10
Licensed vehicles	5
Machinery and equipment	3 to 5
Machinery and equipment held under capital leases	Shorter of 5 years or lease term

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

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

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

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

6) Deferred Inflows of Resources

In governmental funds financial statements, deferred inflows of resources arise when one of the following situations occur:

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

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

7) Long-term Obligations

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

Principal and interest payments on bonds due on July 1 are recorded as governmental fund liabilities in the debt service fund when resources are available. In governmental fund financial statements, face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

8) Compensated Absences

Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the fund financial statements only when payment is due.

The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that is attributable to services already rendered and is not contingent on a specific event. The liability includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

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

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

9) Leases

The Municipality classifies its lease agreements either as operating or capital leases. The Municipality classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the following four criteria:

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

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

aforementioned four criteria and have a fiscal funding or a cancellation clause are generally recorded as capital leases. Otherwise, these are recorded as operating leases.

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

10) Accounting for Pension Cost and Post-Employment Benefits

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

11) Claims and Judgments

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

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

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

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

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

13) Inter-fund Transactions

The Municipality has the following types of inter-fund activities:

- a. **Inter-fund loans** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. For amounts not expected to be collected within a reasonable period of time, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as an operating transfer from the governmental fund that made the loan.
- b. **Inter-fund transfers** – Represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. These are reported as other financing sources in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- c. **Inter-fund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them. Inter-fund activity has not been eliminated.

14) 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.

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

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

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by the Department of Treasury on behalf of the Municipality.

The current insurance policies have not been canceled or terminated at year-end. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

Cost of insurance allocated to the Municipality for the fiscal year ended June 30, 2014 amounted to approximately \$5.0 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, 2014 amounted to approximately \$6.1 million.

The Municipality establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made in the statement of activities. Effective July 1, 2014, the Municipality discontinued the self-insurance program and acquired private insurance to cover these risks.

15) Direct Charges

Pursuant to and determined by an internal cost allocation plan, certain costs initially borne by the general fund are then billed as direct charges to other funds. Revenues from these charges are accounted for in the government-wide statement of activities as general government and in the statement of revenues, expenditures and changes in fund balances as charges for services in the general fund. The corresponding expenses appear as function/program costs in the Statement of Activities.

16) Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and deferred outflows and liabilities and deferred inflows, the disclosure of contingent assets and liabilities at the date of the basic financial statements,

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and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. DEPOSITS

At June 30, 2014, the carrying amounts and the respective bank balances of the Municipality's deposits are as follows:

	Carrying amounts of deposits				Total
	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	
<i>Unrestricted:</i>					
Cash in commercial banks:					
Cash equivalents	\$ 108,930,213	\$ -	\$ -	\$ -	\$ 108,930,213
Other demand deposits	28,173,896	-	-	-	28,173,896
<i>Restricted:</i>					
Cash in commercial banks	9,020,854	-	8,638,338	22,656,277	40,315,469
Cash with fiscal agent	5,055,412	147,940,089	85,240,167	12,484,669	250,720,337
Totals	<u>\$ 151,180,375</u>	<u>\$ 147,940,089</u>	<u>\$ 93,878,505</u>	<u>\$ 35,140,946</u>	<u>\$ 428,139,915</u>
Bank balances of deposits					
	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	Total
<i>Unrestricted:</i>					
Cash in commercial banks:					
Cash equivalents	\$ 108,930,213	\$ -	\$ -	\$ -	\$ 108,930,213
Other demand deposits	38,555,160	-	-	-	38,555,160
<i>Restricted:</i>					
Cash in commercial banks	15,000,744	-	8,638,338	22,054,270	45,693,352
Cash with fiscal agent	5,081,791	147,940,089	85,230,170	12,484,669	250,736,719
Totals	<u>\$ 167,567,908</u>	<u>\$ 147,940,089</u>	<u>\$ 93,868,508</u>	<u>\$ 34,538,939</u>	<u>\$ 443,915,444</u>

Custodial credit risk for deposits is the risk that in the event of bank failure, the Municipality's deposits may not be recovered. Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Secretary of the Treasury of the Government of Puerto Rico, but not in the Municipality's name. Deposits maintained in GDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk.

The Municipality's deposits consist principally of unrestricted and restricted demand deposits in the Government Development Bank for Puerto Rico (GDB), as fiscal agent, and various commercial banks. The deposits include cash equivalents of \$108.9 million in the general fund that are held in commercial banks at year-end.

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

The Municipality maintains an internal cash management pool in which several funds participate on a dollar equivalent and daily transaction basis. At June 30, 2014, the pool cash account in commercial banks had a balance of \$28.2 million of which \$11.3 million, \$2.6 million and \$14.3 million have been recorded in the general fund, capital improvement bond fund and other

governmental funds, respectively. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriations.

Restricted cash in commercial banks of \$9.0 million in the general fund consist of unspent proceeds of borrowings made through the issuance of Series A, B and C of the 2013 Municipal General Obligation Notes that are restricted for the payment of certain operating expenses and other working capital purposes.

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

Restricted cash with fiscal agent in the debt service fund consist of property tax and sales and usage tax collections amounting to \$130.1 million and \$17.9 million, respectively, that are available for the debt service payments of bonds and certain general obligations notes.

Restricted cash in commercial banks and with fiscal agent in the capital improvements bond fund, amounting to \$8.6 and \$85.2 million, respectively, consist of unspent bonds and notes proceeds that are restricted for the acquisition, construction or improvements of major capital assets financed with public debt.

Restricted cash in commercial banks of other governmental funds amounting \$22.7 million consist of intergovernmental operating and capital grants contributions received from the Commonwealth and the federal government of the United States of America that are available for the operations of several operating grants programs.

Restricted cash with fiscal agent of other governmental funds amounting \$12.5 million consist of intergovernmental capital grants and contributions from the Commonwealth amounting to \$12.0 million that are restricted for general infrastructure projects.

The restricted cash in commercial banks of the proprietary fund and a book balance of \$1.8 million and a bank balance of \$83 thousand are restricted for the payment of the fund's revenue bonds.

4. ACCOUNTS RECEIVABLE

a. Property Taxes

The Municipality is authorized 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 is a derived tax 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, 2014 was 8.53 percent (of which taxpayers pay 8.33 percent and the remaining 0.20 percent is paid by the Commonwealth, as a subsidy).

Real property taxes are assessed every January 1 (lien; levy date) and are based on estimated current values of the property, deflated to 1957 market prices. Real property taxes are due and collectible on January 1 and July of every fiscal year. The total real property tax rate in force at June 30, 2014 was 10.53 percent (of which 10.33 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Commonwealth, as a subsidy).

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

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

On July 10, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 37 for the purpose, among others, to: (1) increase the real property assessed value by ten times; (2) decrease the real property tax rate by ten times; and (3) increase the exempt portion of real property tax from the first \$15,000 of the assessed value to \$150,000. These provisions are effective only for fiscal years 2012, 2013 and 2014.

b. Municipal License Taxes

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth. This is a derived 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, 2014, 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, 2014. Municipal license taxes collected prior to June 30, 2014 but pertaining to the next fiscal year are recorded as deferred inflows of resources.

c. Sales and Usage Taxes

The Municipality imposes a municipal sales and usage tax within the territorial limits of the Municipality. This is a derived tax applied to 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 on a monthly basis through a tax return that is due ten calendar days after the end of each month. The municipal sales and usage tax rate was one point five percent (1.5%) until June 30, 2014.

A portion of the sales tax amounting to zero point two percent (0.2%) is restricted for the payment of long-term debt and is recorded in the debt service fund. The remaining portion of one point three percent (1.3%) is recorded in the general fund since it was available for general operating purposes.

d. Construction Excise Taxes

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

The construction excise tax is a derived 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 three point seventy five percent (3.75%) in the tax rate applicable to construction excise taxes.

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

The composition of intergovernmental receivables in the general fund at June 30, 2014 is:

	General Fund	Capital improvements bond fund	Other governmental fund	Total
State and local intergovernmental entities:				
<i>Puerto Rico Treasury Department -</i>				
Employees' Christmas bonus cost reimbursement	\$ 1,548,517	\$ -	\$ -	\$ 1,548,517
Other entities	-	18,000	-	18,000
Total state and local intergovernmental entities	<u>1,548,517</u>	<u>18,000</u>	<u>-</u>	<u>1,566,517</u>
Federal grants and contributions:				
<i>U.S. Department of Housing and Urban</i>				
<i>Development - Community Services Block</i>				
Grants Cluster	-	-	1,390,298	1,390,298
<i>U.S. Department of Health and Human Services:</i>				
HIV Emergency Relief Project Program	-	-	1,050,742	1,050,742
Head Start Program	-	-	889,843	889,843
Cancer Control Program	-	-	248,516	248,516
Risk Reduction Program	-	-	234,413	234,413
<i>U.S. Department of Housing and Urban Development:</i>				
Community Development Block Grant Program	-	-	813,084	813,084
Housing Opportunities for Persons with AIDS Program	-	-	335,294	335,294
<i>U.S. Department of Labor - Workforce Investment</i>				
Act Cluster	-	-	784,678	784,678
<i>U.S. Department of Homeland Security - State Homeland</i>				
Security Program	-	-	292,601	292,601
Other federal grantors on various programs	-	-	2,420,321	2,420,321
Total federal grants and contributions	<u>-</u>	<u>-</u>	<u>8,459,790</u>	<u>8,459,790</u>
Total intergovernmental receivables	<u>\$ 1,548,517</u>	<u>\$ 18,000</u>	<u>\$ 8,459,790</u>	<u>\$ 10,026,307</u>

Intergovernmental receivables in other governmental funds represent principally uncollected reimbursements of expenditures incurred under grants and contributions from the federal and local governments.

f. Miscellaneous Accounts Receivable

Miscellaneous accounts receivable as of June 30, 2014, are as follows:

	General fund	Debt service fund	Other governmental funds	Total
Medical services receivable	\$ 6,687,026	\$ -	\$ -	\$ 6,687,026
Other miscellaneous	298,344	6,525	308,382	613,251
Total miscellaneous accounts receivable	<u>\$ 6,985,370</u>	<u>\$ 6,525</u>	<u>\$ 308,382</u>	<u>\$ 7,300,277</u>

Municipality of San Juan
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Notes to Basic Financial Statements
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5. LOANS RECEIVABLE

Loans receivable of the Independent Capital Fund, a nonmajor special revenue fund, consist of the outstanding balances of various credit facilities granted under a revolving loan program to private small businesses in the aggregate amount of \$4.7 million, net of an allowance for loan losses of \$5.2 million. The majority of these loans are collateralized or guaranteed by either first, second and third mortgage notes on real estate and/or chattel mortgage over machinery and equipment.

6. INTERFUND TRANSACTIONS

Interfund receivables, payables and transfers are summarized as follows:

Due to other governmental funds	Due from other governmental funds		
	General fund	Other governmental funds	Total
Debt service fund	\$ 6,307,316	\$ -	\$ 6,307,316
Capital improvements bond fund	7,049,516	-	7,049,516
Other governmental funds	10,538,928	8,511,523	19,050,451
Totals	<u>\$ 23,895,760</u>	<u>\$ 8,511,523</u>	<u>\$ 32,407,283</u>

Transfers to other governmental funds	Transfers from other governmental funds				Total
	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	
General fund	\$ -	\$ -	\$ 4,709,280	\$ 8,188,215	\$ 12,897,495
Debt service fund	6,391,526	-	-	-	6,391,526
Capital improvements bond fund	3,890,749	2,981,509	-	-	6,872,258
Other governmental funds	1,821,140	-	-	5,403,155	7,224,295
Totals	<u>\$ 12,103,415</u>	<u>\$ 2,981,509</u>	<u>\$ 4,709,280</u>	<u>\$ 13,591,370</u>	<u>\$ 33,385,574</u>

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

- Recognize the outstanding balance of \$10.5 million of short-term loans granted by the general fund to other governmental funds to temporarily finance the payroll and other operating costs of several federal and state funded programs.
- Recognize the outstanding balance of \$8.5 million of short-term loans among other governmental funds to finance the operation of several programs.
- Recognize the outstanding balance of \$7.0 million of advances granted by the general fund to the capital improvements bond fund to finance the costs of the acquisition, construction and improvement of several major capital assets. These advances are not expected to be repaid within one fiscal year after year-end. Accordingly, at June 30, 2014 the general fund reported nonspendable fund balance amounting to \$7.0 million to properly disclose that these interfund receivables are not considered current available financial resources of the general fund at June 30, 2014.

- Recognize in the debt service fund the excess cash in fiscal agent of \$6.3 million due to the general fund pursuant to provisions of Act. No. 19, referred to below.

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

- Make a routinely transfer of resources, amounting to \$8.2 million, from the general fund to other governmental funds, to cover the operating costs of several federally and state funded programs.
- Recognize in the capital improvements bond fund the commitment of \$4.7 million by the general fund to provide the financial resources to cover the cost of the acquisition, construction and improvement of various major capital assets.
- Make a routinely transfer of interest income amounting to \$3.9 million from the capital improvements bond fund to the general fund, as permitted by law. This interest income was earned by the deposits held in the capital improvements bond fund and was transferred to the general fund.
- Recognize in the general fund the nonroutinary residual equity transfer of \$1.8 million from the Department of Justice fund, the Department of Labor fund, the Department of Health and Human Services fund, the Department of Housing and Urban Development fund, and the miscellaneous special revenue fund.

On January 24, 2014, Act No. 19, known as *Municipal Finance Corporation Act*, was enacted to, among other things, allow the Municipality to withdraw from its debt service fund all deposits held in excess of the debt service requirements on certain bonds and notes previously guaranteed with a portion of the municipal sales and usage taxes. On June 30, 2014, the management of the Municipality opted to withdraw all excess cash in the debt service fund as permitted by Act No. 19. The excess restricted deposits amounted to \$6.4 million as determined by GDB at June 30, 2014. A transfer and a related receivable/payable of \$6.4 million for such purposes was recorded from the debt service fund to the general fund at June 30, 2014.

On June 30, 2014, the management of the Municipality opted to withdrawal excess cash in the capital improvements bond fund as permitted by law. The excess restricted deposits amounted to \$3.0 million as determined by GDB. A transfer of \$3.0 million for such purposes was recorded from the capital improvements bond fund to the debt service fund at June 30, 2014.

The proprietary fund has a due from the general fund of \$184 thousand that represents deposits from tenants accounted for in the general fund. During the year, the general fund transferred \$2.9 million for the proprietary fund to be used for the debt service requirements at July 1, 2014.

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Municipality of San Juan
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2014

7. CAPITAL ASSETS

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

	<u>Balance at beginning of fiscal year</u>	<u>Reclassifications</u>	<u>Increases</u>	<u>Balance at end of fiscal year</u>
<i>Governmental Activities:</i>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 123,271,319	\$ -	\$ -	\$ 123,271,319
Works of art	2,224,365	-	-	2,224,365
Construction in progress	28,874,766	(5,263,821)	13,641,449	37,252,394
Total capital assets not being depreciated	<u>154,370,450</u>	<u>(5,263,821)</u>	<u>13,641,449</u>	<u>162,748,078</u>
<i>Capital assets, being depreciated:</i>				
Buildings and building improvements	446,175,115	281,713	2,218,230	448,675,058
Site improvements	183,751,196	-	1,983,091	185,734,287
Infrastructure	279,320,463	4,982,108	4,078,139	288,380,710
Equipment and vehicles	49,177,372	-	7,247,340	56,424,712
Intangible	3,825,426	-	-	3,825,426
Total capital assets being depreciated	<u>962,249,572</u>	<u>5,263,821</u>	<u>15,526,800</u>	<u>983,040,193</u>
<i>Less: accumulated depreciation for:</i>				
Buildings and building improvements	(209,421,806)	(3,521)	(18,288,695)	(227,714,022)
Site improvements	(121,398,518)	-	(7,328,949)	(128,727,467)
Infrastructure	(90,271,422)	3,521	(10,417,447)	(100,685,348)
Equipment and vehicles	(29,450,489)	-	(6,357,013)	(35,807,502)
Intangible	(3,825,426)	-	-	(3,825,426)
Total accumulated depreciation	<u>(454,367,661)</u>	<u>-</u>	<u>(42,392,104)</u>	<u>(496,759,765)</u>
Total capital assets being depreciated, net	<u>507,881,911</u>	<u>5,263,821</u>	<u>(26,865,304)</u>	<u>486,280,428</u>
Governmental activities capital assets, net	<u>\$ 662,252,361</u>	<u>\$ -</u>	<u>\$ (13,223,855)</u>	<u>\$ 649,028,506</u>
<i>Business-type Activities:</i>				
Capital assets, not being depreciated - land	<u>\$ 18,600,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,600,000</u>
Capital assets, being depreciated - building and building improvements	36,400,000	-	-	36,400,000
Less: accumulated depreciation for building and building improvements	(2,275,595)	-	(910,000)	(3,185,595)
Total capital assets being depreciated, net	<u>34,124,405</u>	<u>-</u>	<u>(910,000)</u>	<u>33,214,405</u>
Business-type activities capital assets, net	<u>\$ 52,724,405</u>	<u>\$ -</u>	<u>\$ (910,000)</u>	<u>\$ 51,814,405</u>

The buildings and building improvements of the business-type activities are leased under an operating lease agreement to various tenants.

The main tenant of the facilities declared bankruptcy during March 2014 and has defaulted in its lease payments to the Municipality. This situation caused the Municipality to transfer \$2.9 million from the general fund to cover the debt service requirements of the proprietary fund. The Municipality is actively negotiating with current and possible alternative tenants to solve this situation.

Municipality of San Juan
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2014

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

Governmental activities:	Amount
General government	\$ 5,225,452
Public safety	3,108,629
Urban affairs	11,017,260
Culture and recreation	9,790,623
Health and welfare	5,773,937
Urban development	327,938
Economic development	5,570,540
Education	1,577,726
Total depreciation expense	<u>\$ 42,392,104</u>

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

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Governmental funds</u>			<u>Total</u>	<u>Statement of net position - governmental activities</u>
	<u>General fund</u>	<u>Capital improvements bond fund</u>	<u>Other governmental funds</u>		
Accounts payable to suppliers	\$ 58,745,408	\$ 7,792,054	\$ 10,060,637	\$ 76,598,099	\$ 94,935,273
Compensated absences, due and payable	689,030	-	-	689,030	689,030
Payroll-related accrued liabilities	5,255,082	-	-	5,255,082	5,255,082
Total	<u>\$ 64,689,520</u>	<u>\$ 7,792,054</u>	<u>\$ 10,060,637</u>	<u>\$ 82,542,211</u>	<u>\$ 100,879,385</u>

9. INTERGOVERNMENTAL PAYABLES

Intergovernmental payables at year-end are as follows:

	General fund
Puerto Rico Aqueduct and Sewer Authority	\$ 1,873,120
Puerto Rico Government Employees Retirement System	2,640,944
Total	<u>\$ 4,514,064</u>

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Municipality of San Juan
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2014

10. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources are as follows at June 30, 2014:

	General fund	Debt service fund	Other governmental funds	Total governmental funds	Statement of net position - governmental activities
Unavailable revenues:					
Property taxes	\$ 30,674,442	\$ 17,364,596	\$ -	\$ 48,039,038	\$ -
Municipal license taxes	8,271,257	-	-	8,271,257	-
Sales and usage taxes	2,618,850	-	-	2,618,850	-
Construction excise taxes	4,416,389	-	-	4,416,389	-
Charges for services	1,825,006	-	-	1,825,006	-
Intergovernmental grants and contributions	1,789,983	-	264,437	2,054,420	-
Total unavailable revenues	49,595,927	17,364,596	264,437	67,224,960	-
Unearned revenues:					
Municipal license taxes	97,235,960	-	-	97,235,960	97,235,960
Intergovernmental grants and contributions	-	-	12,000,000	12,000,000	12,000,000
Total unearned revenues	97,235,960	-	12,000,000	109,235,960	109,235,960
Total deferred inflows of resources	\$ 146,831,887	\$ 17,364,596	\$ 12,264,437	\$ 176,460,920	\$ 109,235,960

11. LONG-TERM OBLIGATIONS

Long-term obligations activity for the fiscal year ended June 30, 2014 is as follows:

	Balance at beginning of fiscal year	Increases	Decreases	Balance at end of fiscal year	Due within one fiscal year
Governmental activities:					
Bonds payable	\$ 479,437,000	\$ -	\$ (42,846,000)	\$ 436,591,000	\$ 36,808,000
Mortgage payable	3,061,681	-	(439,312)	2,622,369	478,143
Notes payable	401,170,329	85,220,000	(44,334,551)	442,055,778	25,223,022
Compensated absences	60,424,513	8,355,495	(7,861,524)	60,918,484	7,861,524
Pension-related debt	8,511,053	-	(4,820,947)	3,690,106	3,690,106
Claims and judgments	14,162,313	1,045,755	(10,904,090)	4,303,978	-
Estimated liability for municipal solid waste landfill postclosure care costs	16,200,266	-	(736,376)	15,463,890	736,376
Self insurance claims liability	5,281,808	5,388,754	(247,128)	10,423,434	-
Total governmental activities long-term liabilities	\$ 988,248,963	\$ 100,010,004	\$ (112,189,928)	\$ 976,069,039	\$ 74,797,171
Business-type activities:					
Revenue bonds payable and total business-type activities non-current liabilities	\$ 54,551,940	\$ -	\$ (570,000)	\$ 53,981,940	\$ 610,000

The Municipality liquidates certain notes payable, compensated absences, claims and judgments, solid waste landfill post-closure costs and any other long-term liabilities other than bonds, with resources from its general fund.

Governmental Activities

a. Debt Limitation

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

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

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

b. Bonds Payable

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

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

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

Variable interest rates on serial bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the United States of America, (2) in the Eurodollar market, and (3) to corporations having tax

exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the U.S. Internal Revenue Code.

The Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At year-end, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

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

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Description	Outstanding amount
2012 general obligation bonds for the construction, improvements and acquisitions of various capital assets with an original amount of \$100.7 million due in annual installments of \$1,615,000 to \$8,530,000, through July 1, 2035; with interest ranging from 6.0% to 7.5%	\$ 97,320,000
2012 general obligation bonds for the fifth payment of the early retirement termination benefit with an original amount of \$25.7 million due in annual installments of \$375,000 to \$2,145,000, through July 1, 2036; with interest ranging from 6.0% to 7.5%	24,945,000
2011 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$24.9 million due in annual installments of \$2,875,000 to \$4,310,000, through July 1, 2017; with interest ranging from 6.0% to 7.0%	15,625,000
2010 general obligation bonds for the third payment of the early retirement termination benefit with an original amount of \$28.3 million due in annual installments of \$415,000 to \$2,365,000, through July 1, 2034; with interest ranging from 4.75% to 7.5%	26,405,000
2010 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$11.2 million due in annual installments of \$255,000 to \$1,025,000, through July 1, 2029; with interest ranging from 4.75% to 7.5%	10,055,000
2010 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$10.1 million due in annual installments of \$725,000 to \$1,340,000, through July 1, 2019; with interest ranging from 5.0% to 7.0%	6,825,000
2010 general obligation bonds for the acquisition, construction and improvements of various capital assets with an original amount of \$13.5 million due in annual installments of \$340,000 to \$1,260,000, through July 1, 2028; with interest ranging from 5.0% to 7.5%	11,980,000

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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2014

<u>Description</u>	<u>Outstanding amount</u>
2009 general obligation bonds for the acquisition of various capital assets with an original amount of \$7.0 million due in annual installments of \$800,000 to \$1,230,000, through July 1, 2015; with interest ranging from 4.75% to 7.5%	\$ 2,375,000
2009 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$16.9 million due in annual installments of \$430,000 to \$1,585,000, through July 1, 2027; with interest ranging from 4.75% to 7.5%	14,420,000
2008 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$4.7 million due in annual installments of \$175,000 to \$500,000, through July 1, 2023; with interest ranging from 1.53% to 7.5%	3,680,000
2008 general obligation bonds for the second payment of the early retirement termination benefit with an original amount of \$20.0 million due in annual installments of \$305,000 to \$1,635,000, through July 1, 2032; with interest ranging from 1.53% to 7.25%	17,800,000
2008 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$4.7 million due in annual installments of \$70,000 to \$390,000, through July 1, 2032; with interest ranging from 1.53% to 7.25%	4,210,000
2008 general obligation bonds for the acquisition of various capital assets with an original amount of \$10.9 million due in annual installments of \$1,245,000 to \$1,900,000, through July 1, 2014; with interest ranging from 1.53% to 6.50%	1,900,000

Municipality of San Juan
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2014

Description	Outstanding amount
2007 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$13.8 million due in annual installments of \$320,000 to \$1,260,000, through July 1, 2026; with interest ranging from 1.53% to 7.00%	\$ 11,000,000
2007 general obligation bonds for the first payment of the early retirement termination benefit with an original amount of \$22.6 million due in annual installments of \$357,000 to \$1,812,000, through July 1, 2031; with interest ranging from 1.53% to 7.00%	19,491,000
2005 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$18.6 million due in annual installments of \$480,000 to \$1,585,000, through July 1, 2025; with interest ranging from 4.23% to 5.33%	13,790,000
2005 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$18.9 million due in annual installments of \$570,000 to \$1,450,000, through July 1, 2024; with interest ranging from 4.17% to 5.28%	12,635,000
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%	4,745,000
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%	14,400,000
2003 general obligation bonds for the construction and improvements of various capital assets with an original amount of \$12.8 million due in annual installments of \$415,000 to \$620,000, through July 1, 2028; with interest ranging from 1.61% to 5.31%	8,310,000

Municipality of San Juan
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2014

<u>Description</u>	<u>Outstanding amount</u>
2001 serial bonds for the construction and improvements of various capital assets with an original amount of \$55.6 million due in annual installments of \$760,000 to \$4,825,000, through July 1, 2026; with interest ranging from 2.70% to 5.60%	\$ 41,150,000
2000 serial bonds for the construction and improvements of various capital assets with an original amount of \$25.4 million due in annual installments of \$970,000 to \$2,680,000, through July 1, 2015; with interest ranging from 2.70% to 7.81%	5,170,000
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%	25,805,000
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%	17,570,000
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%	16,900,000
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%	<u>8,085,000</u>
Total	<u><u>\$ 436,591,000</u></u>

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

Fiscal year ending June 30,	Principal	Interest
2015	\$ 36,808,000	\$ 27,989,771
2016	37,318,000	25,703,177
2017	35,701,000	23,031,795
2018	31,472,000	21,260,883
2019	23,956,000	19,491,855
2020-2024	92,319,000	78,965,917
2025-2029	91,601,000	47,236,949
2030-2034	62,591,000	20,756,890
2035-2037	24,825,000	2,042,063
Totals	\$ 436,591,000	\$ 266,479,300

c. Mortgage Payable

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

Aggregate annual maturities of the mortgage payable are as follows:

Fiscal year ending June 30,	Principal	Interest
2015	\$ 478,143	\$ 204,559
2016	520,406	162,295
2017	566,405	116,296
2018	616,470	66,231
2019	440,945	14,170
Totals	\$ 2,622,369	\$ 563,551

d. Notes Payable

On September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB to extinguish in advance certain bonds payable issued by Public Finance Corporation (PFC), a subsidiary of GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse. The original face amount of the note allocated

by CRIM to the Municipality was for a term not exceeding 30 years. The note bears interest at 6.50 percent during its first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 points over the 5-year LIBOR rate, which will be adjusted every five years. Principal and interest payments on this financing agreement are accounted for in the general fund. The outstanding principal as of June 30, 2014 approximates \$10.9 million.

During September 2002, the Municipality entered into a repayment agreement with the GDB and CRIM to repay a debt of \$27.4 million. The principal and interest payments are due on July 1 of each year through July 1, 2032. The outstanding balance as of June 30, 2014 approximates \$22.1 million. The repayment agreement is payable in monthly installments of \$168,685 from unrestricted property tax revenues and bears interest at a fixed interest rate of 6.19%.

During November 2004, the Municipality issued a special obligation refunding note with a commercial bank for approximately \$40 million to refinance certain notes payable to GDB. The note bears interest at 90-day London Interbank Offering Rate (LIBOR) plus 1.25% (0.80% at June 30, 2014) and is payable semi-annually ranging from \$.06 million to \$2.9 million, and matures at various dates through July 1, 2029. The outstanding balance as of June 30, 2014 approximates \$30.4 million. 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 million to \$2.4 million and will bear interest at 90-day LIBOR plus 1.25 percent (1.50% at June 30, 2014). The outstanding balance as of June 30, 2014 approximates \$25.1 million. The proceeds of the note were used principally to pay debt incurred in prior years. This note will be repaid from unrestricted property tax revenues.

During 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 million to \$7.0 million and will bear interest at 90-day LIBOR plus 1.25 percent with a minimum of 5% and maximum of 12% (1.48% at June 30, 2014). The proceeds of the SON-A were used principally to infrastructure capital outlays. The outstanding balance as of June 30, 2014 approximates \$7.0 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 \$600 thousand to \$3.1 million and will bear interest at 90-day LIBOR plus 1.25 percent with a minimum of 5% and maximum of 12% (1.48% at June 30, 2014). The proceeds of the SON-B were used principally for the construction of various capital facilities and other capital assets. The outstanding balance as of June 30, 2014 approximates \$33.3 million. The SON-B will be repaid through sales tax revenues pledge and account for in the Municipality Redemption Fund.

In addition, the Municipality entered into a loan agreement with the US Department of Housing and Urban Development under a Variable Rate Note Guarantee pursuant to Section

108 of the Housing and Community Development Act of 1974, as amended. The note was issued to finance the future acquisition and construction of major capital facilities, and allows borrowings up to a maximum of \$72.5 million. The borrowings have an outstanding balance of approximately \$46.4 million and is payable in annual installments ranging from \$2.7 to \$6.3 million, mature at various dates through July 2022 and bear interest at 0.2% over 90-day LIBOR (0.47% at June 30, 2014). This loan agreement will be repaid from future grant awards received from the Community Development Block Grants (CDBG) program.

On August 24, 2012, the Municipality borrowed \$18.7 million from GDB for the purpose of acquisition of major capital assets. The notes shall bear interests at variable rates (6.00% at June 30, 2014). The notes are payable in seven (7) annual instalments ranging from \$2.1 million to \$3.3 million, plus interests, through July 1, 2019. The outstanding balance as of June 30, 2014 approximates \$16.6 million.

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

- The 2013, Series A, Municipal General Obligation Notes, shall bear interests at rate of 1.5% over prime rate (4.75% at June 30, 2014). The notes are payable in twenty-five (25) annual instalments ranging from \$1.9 million to \$5.1 million, plus interests, through July 1, 2038.
- The 2013, Series B and C, Municipal General Obligation Notes, shall bear interests at variable rates (4.25% at June 30, 2014) and are payable in twenty-five annual instalments ranging from \$1.4 million to \$3.8 million and from \$0.6 million to \$1.6 million, respectively, plus interests, through July 1, 2038.
- The outstanding balance as of June 30, 2014 of Series A, B, and C of the 2013 Municipal General Obligations Notes approximate \$80.0 million, \$60.0 million and \$25.0 million, respectively.

In August 2013, the Municipality borrowed \$50.3 million from GDB through the issuance of Series D of the 2013 Municipality General Obligation Notes for the purpose of providing working capital and the financial resources needed to repay certain operating expenses and past due liabilities with suppliers outstanding since 2012. The outstanding balance as of June 30, 2014 approximates \$50.3 million. The 2013, Series D Municipal General Obligation Notes, shall bear interests at variable rates (6.00% at June 30, 2014) and are payable in twenty-five annual instalments ranging from \$700 thousand to \$4.2 million, plus interests, through July 1, 2038.

On January 29, 2014, the Municipality borrowed \$5.0 million from a commercial bank through the issuance of Series E of the 2013 Municipal General Obligation Note. Such notes were issued for the purpose of acquisition of major capital assets. The notes shall bear interest at variable rates (7.50% at June 30, 2014). The notes are payable in seven (7) annual

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instalments ranging from \$650,000 to \$785,000, plus interests, through July 1, 2020. The outstanding balance as of June 30, 2014 approximates \$5.0 million.

On June 28, 2014, the Municipality borrowed \$29.9 million from GDB for the purpose of refinance the line of credit agreement that were issued to finance the fourth installment of the early retirement termination benefit plan and other related debts. The notes shall bear interests at variable rates (6.00% at June 30, 2014). The notes are payable in ten (10) annual instalments ranging from \$2.1 million to \$4.1 million, plus interests, through July 1, 2023. The outstanding balance as of June 30, 2014 approximates \$29.9 million.

The notes with commercial banks are subject to various debt covenants that the management of the Municipality understands that have been complied with in all material respects, except for certain covenants for which the Municipality has obtained compliance waivers from the respective financial institutions at June 30, 2014.

The maturities of notes payable are as follows:

Fiscal year ending June 30,	Principal	Interest
2015	\$ 25,223,022	\$ 26,453,502
2016	19,266,686	27,798,686
2017	20,387,434	26,515,139
2018	21,565,688	25,149,847
2019	22,811,899	23,698,847
2020-2024	110,751,050	96,089,910
2025-2029	83,729,739	65,320,588
2030-2034	72,140,260	37,051,197
2035-2039	66,180,000	12,924,938
Totals	\$ 442,055,778	\$ 341,002,653

e. Compensated Absences

The government-wide statement of net position includes approximately \$27.8 million, \$28.8 million and \$4.3 million of accrued vacation benefits, accrued sick leave benefits and payroll-related benefits, respectively, representing the Municipality's commitment to fund such costs from future operations. The matured portion of such obligation that is due and payable has been recorded in the amount of \$689 thousand within accounts payable and accrued liabilities of the general fund at June 30, 2014.

f. Pension-Related Debt

Pension-related debt includes various obligations of the Municipality with the Employees Retirement System of the Government of Puerto Rico and Its Instrumentalities for the repayment of liabilities that resulted from the enactment of various special laws that,

substance over form, converted the Municipality’s actuarial accrued liability into a fixed contractual liability to the Cost-Sharing Multi-Employer Defined Benefit Pension Plan that the Municipality’s employees participate and an early retirement plan.

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

The pension-related debt of \$21.8 million is payable with a first installment payment of \$2.5 million made in September 10, 2010 followed by fifty-nine monthly installments of approximately \$0.3 million, including interests at an imputed rate of 5% per annum.

The pension-related debt has been reported in the accompanying government-wide statement of net position since it is considered an accounting liability resulting from the conversion of an actuarial liability (off balance sheet obligation) into a liability that must be reported in the accompanying financial statements. The amount due for pension related debt of \$3,690,106 is due during the fiscal year ending June 30, 2015.

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

State and federal laws and regulations require the Municipality to place a final cover on the Municipality’s solid waste landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In December 2000, the Municipality’s landfill facilities were closed. Based on current costs, the preliminary annual estimate of post closure costs has been assessed to be approximately \$700 thousand for a period of approximately 22 years. The balance of post closure costs of \$15.5 million is reported in the statement of net position. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations.

h. Self-insurance

The Municipality establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Fund during the fiscal year ended June 30, 2014:

Unpaid claims at beginning of year	\$ 5,281,808
Incurred claims and claim adjustments expenses	5,388,754
Total incurred claims and claim adjustment expenses	<u>10,670,562</u>
Payments	<u>(247,128)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u><u>\$ 10,423,434</u></u>

Business-type activities

i. Revenue Bonds Payable – Proprietary Fund

On December 15, 2010, the Municipality issued revenue bonds amounting to \$55.1 million for the acquisition of an income-producing real estate property commonly known as International Center. The bonds are payable in twenty five (25) annual installments commencing on July 1, 2012 through July 1, 2036. The Municipality shall pay interests on the bonds at a rate per annum equal to 3.5 percentage points over the London Interbank Offered Rate (3.97% at June 30, 2014).

Pursuant to the provisions of the revenue bond indentures, the Municipality has pledged and assigned its right, title and interest in all future revenues to be produced in the operation and maintenance of the acquired property. In the event that such revenues are not sufficient to make all debt service payments of principal, interests and premium, if any, on the bonds, the Municipality will appropriate the necessary portion of its general revenues to cover the debt service payments due and payable. During the year ended June 30, 2014, the Municipality transferred \$2.9 million from the general fund to cover debt service requirements. In addition, the acquired property is subject to a mortgage constituted as security for the obligations evidenced by the bonds issued.

The revenue bonds are subject to several positive and negative covenants that the Municipality must comply with at all times. The management of the Municipality understands that all debt covenants have been complied with, in all material respects, at June 30, 2014.

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

Fiscal year ending June 30,	Principal	Interest
2015	\$ 610,000	\$ 2,904,232
2016	660,000	2,928,306
2017	700,000	2,940,257
2018	760,000	2,970,507
2019	820,000	2,998,206
2020-2024	5,100,000	15,414,312
2025-2029	7,320,000	16,360,375
2030-2034	10,510,000	17,768,095
2035-2037	27,501,940	30,668,862
Totals	\$ 53,981,940	\$ 94,953,154

12. PENSION PLANS

a. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a cost-sharing multi-employer (as related to the Municipality's reporting entity) defined benefit pension plan established by the Commonwealth and administered by the Retirement Systems Administration of the Commonwealth of Puerto Rico. Substantially all full-time employees of the Commonwealth Municipality are covered by ERS under the terms of Public Act No. 447 of May 15, 1951, as amended (Act No. 447). All regular and temporary employees of the Municipality become plan members of ERS at the date of employment, while it is optional for officers appointed. ERS members, other than those joining it after March 31, 1990, are eligible for the benefits described below:

Retirement Annuity

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

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

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

Merit Annuity

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

Deferred Retirement Annuity

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

Coordinated Plan

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

- a.*** \$165 per month, if retired with 55 years of age and 30 years of credited service.
- b.*** \$110 per month, if retired with less than 55 years of age and 30 years of credited service.

- c. All other between \$82 and \$100 per month.
- d. Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over \$165 per month.

Non-Coordinated Plan

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

Reversionary Annuity

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

Occupational Disability Annuity

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

Non-occupational Disability Annuity

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

Death Benefits

Occupational:

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

Non-occupational:

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

Refunds

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

b. Hybrid Defined Contribution Pension Plan

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

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

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

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

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the System. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the System, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
2. Increased the minimum pension for current retirees from \$400 to \$500 per month.

3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
4. The retirement age for active System 2000 participants will be gradually increased from age 60 to 65.
5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
6. Eliminated the “merit annuity” available to participants who joined the System prior to April 1, 1990.
7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters and custody officers, which will be age 58.
8. The employee contribution rate was increased from 8.275% to 10%.
9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated.
11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
12. Survivor benefits were modified.

Funding Policies

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

Municipality and other employers	12.28 percent of applicable payroll
Employees:	
Coordination plan:	7.00 percent of gross salary up to \$6,600 per year, plus 10.00 percent gross salary in excess of \$6,600.
Supplementation plan:	10.00 percent of gross salary. This is the only choice available to policemen, firemen and mayors

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

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

During the fiscal years ended June 30, 2012, 2013 and 2014, the Municipality and the participating employees contributed at least 92 percent of the required contributions to ERS and System 2000. The combined actual contributions made by the Municipality and its participating employees to ERS and System 2000 amounted to \$26.6 million, \$27.1 million and \$28.9 million for the fiscal years ended June 30, 2014, 2013 and 2012 respectively.

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

13. FUND BALANCES

As of June 30 2014, fund balances of governmental funds are comprised of the following:

<i>Fund balances:</i>	General fund	Debt service fund	Capital improvements bond fund	Other governmental funds	Total
Nonspendable:					
Long-term interfund advances from capital improvements bond fund	\$ 7,049,516	\$ -	\$ -	\$ -	\$ 7,049,516
Long-term loans receivable	-	-	-	4,680,342	4,680,342
Other unrestricted assets	1,147,545	-	-	850,530	1,998,075
Restricted for:					
General government	14,076,266	-	-	-	14,076,266
Public Safety	-	-	-	448,515	448,515
Urban development	-	-	-	6,376,439	6,376,439
Health and welfare	-	-	-	6,078,277	6,078,277
Economic development	-	-	-	7,051,443	7,051,443
Debt service	-	70,965,262	-	6,618,887	77,584,149
Capital projects	-	-	79,054,935	-	79,054,935
Unassigned	(1,098,271)	-	-	(15,547,020)	(16,645,291)
Total fund balances	\$ 21,175,056	\$ 70,965,262	\$ 79,054,935	\$ 16,557,413	\$ 187,752,666

14. NET INVESTMENT IN CAPITAL ASSETS

The investment in capital assets component of net position, net of related debt, is comprised of the following:

	Governmental activities	Business- type activities	Total
Capital assets, net of accumulated depreciation	\$ 649,028,506	\$ 51,814,405	\$ 700,842,911
Outstanding balance on capital related debt	(409,870,000)	(53,981,940)	(463,851,940)
Unexpended capital debt proceeds	93,878,505	-	93,878,505
Total net investment in capital assets	<u>\$ 333,037,011</u>	<u>\$ (2,167,535)</u>	<u>\$ 330,869,476</u>

15. RISK MANAGEMENT

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

The Municipality maintains a claims-made policy to provide 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. The Municipality has a self-insurance claims liability of \$10.4 million as of June 30, 2014. The Municipality discontinued its self-insurance program effective July 1, 2014.

16. COMMITMENTS

a. Operating Leases

The Municipality leases real property, buildings, vehicles and equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the governmental funds for the fiscal year amounted to approximately \$6.8 million. Management believes that the summary of the future minimum rental commitments under non-cancelable real property and equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

b. Construction

The Municipality had commitments at year-end of approximately \$31.6 million for the construction, improvements, or renovation of several capital facilities and the capital assets.

c. Other commitments

At year-end, the general fund had commitments of approximately \$36.1 million for executory purchases orders or contracts that will be honored during the subsequent year.

17. CONTINGENCIES

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

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$4.3 million at year-end, for possible anticipated unfavorable judgments. These amounts were included in the financial statements and represent the amounts estimated as probable liabilities, which may require future available financial resources for its payment. Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significant, if any. The changes in the reserve for claim and judgments for the last two fiscal years are as follows:

	<u>2014</u>	<u>2013</u>
Balance as of July 1, as restated	\$ 14,162,313	\$ 20,832,777
Add: Provision for claims and judgments	1,045,755	2,309,746
Less: Payments or deductions of claims and judgments	<u>(10,904,090)</u>	<u>(8,980,210)</u>
Balance as of June 30	<u>\$ 4,303,978</u>	<u>\$ 14,162,313</u>

The Municipality, based on the advice of legal counsel, believes that the potential claims not covered by insurance will not materially affect the financial position, results of operations and cash flows condition of the Municipality.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The “*Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133*” for the fiscal year ended June 30, 2014, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors.

18. SUBSEQUENT EVENTS

The Municipality evaluated subsequent events through December 29, 2014, date through which the financial statements were available to be issued. Following are the material subsequent events that the Municipality believes require disclosure.

Effective July 1, 2014, Act No. 18 reduced the statutory municipal sales and usage tax rate from one point five percent (1.5%) to one point zero percent (1.0%) for all municipalities of Puerto Rico.

Simultaneously, Act No.19 created the *Municipal Finance Corporation (MFC)*, a subsidiary of GDB, which is authorized to issue bonds and use other financing mechanisms to directly or indirectly pay or refinance all or part of the municipal long-term debt incurred that are payable from or backed by the municipal sales and usage taxes effective July 1,2014.

In order to mitigate the effects of the reductions in the municipal sales and usage tax rate referred to above, Act No. 18 established the mechanisms to protect the financial stability of the municipal governments of Puerto Rico by allowing the municipalities to continue receiving the economic benefits lost as a consequence of the reduction in the statutory municipal sales and usage tax rate referred to above. For these purposes, effective July 1, 2014, Act No. 18 requires that an amount equal to zero point five percent (0.5%) of the state sales and usage taxes collected by the Commonwealth of Puerto Rico be deposited in a special fund to be known as *Municipal Administration Fund (MAF)* in the name and for the benefit of each municipality of Puerto Rico.

Accordingly, commencing on July 1, 2014, the Commonwealth of Puerto Rico shall make advances from the collections arising from the zero point five percent (0.5%) of the state sales and usage taxes to the MAF of each municipality. The advances shall be made and distributed to the municipalities on a monthly basis as follows in accordance with Section 4050 of Act No. 1, as amended:

- i.* Forty percent (40%) of the amounts transferred shall be available to cover general operating expenses of the *General Fund* of each municipality;
- ii.* Forty percent (40%) of the of the amounts transferred shall be available and restricted in the MFC's redemption fund to guarantee the repayment of any municipal loan, bond, note, or other evidence of debt whose repayment source is the monies deposited therein under the custody of GDB.
- iii.* Twenty percent (20%) of the amounts transferred shall be available and restricted in the capital improvements bond fund to finance the acquisition, construction and improvement of major capital assets.

Pursuant to the provisions of Act No. 19, on July 1, 2014, the Municipality transferred to MFC all of its outstanding long-term debt payable and backed with the municipal sales and usage taxes, and the related accrued interests payable amounting to \$70.2 million and \$0.4 million, respectively. The Municipality also transferred to MFC the outstanding balance of the cash held with fiscal agent and other assets amounting to \$11.6 million and \$0.9 million, respectively, which are restricted for the debt service of the debt transferred to MFC. The transfer of those

assets and liabilities to MFC resulted in an economic benefit of \$58.1 million to the Municipality to be recorded during the fiscal year ending June 30, 2015.

In August 2014, the Municipality borrowed \$36.2 million from a commercial bank to finance the acquisition, construction and improvement of certain major capital assets. The notes shall bear interests at the rate of four point seventy five percent (4.75%) per annum. The notes are payable in eight (8) annual principal payments ranging from \$0.8 million to \$30.0 million, plus interests, through 2022.

In November 2014, the Municipal Legislature authorized a loan amounting to \$53.2 million from GDB to finance the acquisition, construction and improvement of certain major capital assets. The notes shall bear interests at the rate of twelve percent (12%) per annum. The notes are payable in thirteen (13) annual principal payments ranging from \$0.7 million to \$1.8 million, plus interests, through 2027.

The Municipality approved a tax amnesty effective from November 1, 2014 to February 28, 2015 in order to provide an opportunity to tax payers to settle old outstanding tax liabilities, as well as to reach agreements for unassessed tax liabilities.



REQUIRED SUPPLEMENTARY INFORMATION

Municipality of San Juan
(Commonwealth of Puerto Rico)
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual amounts (Budgetary basis) (See Note 1)	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 147,957,895	\$ 147,957,895	\$ 144,196,528	\$ (3,761,367)
Municipal license taxes	126,500,000	126,500,000	124,200,450	(2,299,550)
Sales and usage taxes	87,502,417	87,502,417	52,736,454	(34,765,963)
Construction excise taxes	15,700,000	15,700,000	24,295,343	8,595,343
Charges for services	54,750,167	54,750,167	51,670,317	(3,079,850)
Interests on deposit	6,000,000	6,000,000	4,875,853	(1,124,147)
Intergovernmental grants and contributions	32,139,021	32,139,021	40,421,521	8,282,500
Miscellaneous revenues	6,150,500	6,150,500	4,611,404	(1,539,096)
Other financing sources - Proceeds from issuance of notes	-	-	80,185,000	80,185,000
Total revenues	476,700,000	476,700,000	527,192,870	50,492,870
EXPENDITURES:				
Current:				
General government	110,179,669	114,855,805	108,883,686	(5,972,119)
Public safety	56,888,300	55,384,555	54,678,287	(706,268)
Public works	70,412,506	71,355,261	82,872,621	11,517,360
Culture and recreation	13,096,000	13,673,662	14,684,974	1,011,312
Health and welfare	186,342,325	180,255,333	183,444,222	3,188,889
Urban development	8,165,036	7,276,743	1,314,016	(5,962,727)
Economic development	10,058,000	10,426,849	12,669,118	2,242,269
Education	12,444,000	14,357,628	15,000,864	643,236
Debt service:				
Principal	5,473,042	5,473,042	30,859,664	25,386,622
Interest	3,641,122	3,641,122	8,089,348	4,448,226
Total expenditures	476,700,000	476,700,000	512,496,800	35,796,800
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 14,696,070	\$ 14,696,070

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis) available for appropriation from the budgetary comparison schedule	\$ 527,192,870
Differences - budgetary basis to GAAP:	
Property tax amnesty collections are reported in a non-budget fund as revenues for GAAP purposes	13,197,475
The proceeds from the issuance of notes payable are budgetary resources but are regarded as other financing sources for financial reporting purposes	(80,185,000)
Transfers from capital improvements bond fund are recorded as interest income for budgetary purposes	(3,890,749)
Changes assets and deferred inflows of resources:	
Net change in tax, intergovernmental and miscellaneous receivables	4,222,116
Net change in deferred inflows of resources	(18,090,330)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 442,446,382</u>

Uses/outflows of resources:

Actual amounts (budgetary basis) total charges to appropriations from the budgetary comparison schedule	\$ 512,496,800
Differences - budgetary basis to GAAP:	
Prior year encumbrances recorded as current year expenditures for GAAP purposes	32,084,460
Current year encumbrances recorded as expenditures for budgetary purposes	(36,070,237)
Changes other assets and liabilities:	
Net change in other unrestricted assets	(50,985)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 508,460,038</u>

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

Municipality of San Juan

(Commonwealth of Puerto Rico)

Notes to the Budgetary Comparison Schedule – General Fund

Fiscal Year Ended June 30, 2014

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2014 representing the original budget. There was one supplemental appropriation for the year ended June 30, 2014.



COMBINING FINANCIAL STATEMENTS

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 Fund – These funds account for and report federal financial resources restricted to expenditures for various homeland security and criminal justice programs.

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

Health and Human Services Fund – These funds account for and report federal financial resources restricted to expenditures for various health services programs, including but not limited to, Community Services Block Grants, Ryan White Act and Head Start programs.

Housing and Urban Development Fund – 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 Fund – 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.

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

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

Municipality of San Juan
(Commonwealth of Puerto Rico)
Combining Balance Sheet –
Other Governmental Funds
June 30, 2014

	Other special revenue funds							Total other special revenue funds
	Department of justice fund	Department of labor fund	Health and human services fund	Housing and urban development fund	Independent capital fund	Miscellaneous special revenue fund	Retirement community fund	
ASSETS								
Accounts receivable, net of allowance for doubtful accounts:								
Intergovernmental grants and contributions	\$ 825,577	\$ 1,001,482	\$ 3,934,052	\$ 1,880,880	\$ -	\$ 817,799	\$ -	\$ 8,459,790
Due from other governmental funds	276,035	290	2,139,187	1,242,718	2,538,105	2,315,188	-	8,511,523
Miscellaneous receivables	-	6,116	92,621	49,184	127,741	19,510	13,210	308,382
Loans receivable, net allowance for loan losses	-	-	-	-	4,680,342	-	-	4,680,342
Other unrestricted assets	-	-	385,038	218,476	175,201	-	71,815	850,530
Restricted assets:								
Cash in commercial banks	289,284	1,876,062	773,389	10,135,606	4,034,581	3,785,103	1,762,252	22,656,277
Cash with fiscal agent	-	-	-	-	-	12,484,669	-	12,484,669
Total assets	\$ 1,390,896	\$ 2,883,950	\$ 7,324,287	\$ 13,526,864	\$ 11,555,970	\$ 19,422,269	\$ 1,847,277	\$ 57,951,513
LIABILITIES								
Accounts payable and accrued liabilities	\$ 324,735	\$ 330,382	\$ 3,404,384	\$ 1,931,920	\$ 35,641	\$ 3,686,367	\$ 347,208	\$ 10,060,637
Due to other governmental funds	548,281	2,166,911	2,996,877	7,898,355	-	5,440,027	-	19,050,451
Bonds and interest payable	-	-	-	-	-	-	18,575	18,575
Total liabilities	873,016	2,497,293	6,401,261	9,830,275	35,641	9,126,394	365,783	29,129,663
DEFERRED INFLOWS OF RESOURCES								
Intergovernmental grants and contributions	69,365	-	148,350	7,443	-	12,036,670	2,609	12,264,437
Total deferred inflows of resources	69,365	-	148,350	7,443	-	12,036,670	2,609	12,264,437
FUND BALANCES								
Nonspendable	-	-	385,038	218,476	4,855,543	-	71,815	5,530,872
Restricted	448,515	386,657	794,761	10,495,333	6,664,786	6,376,439	1,407,070	26,573,561
Unassigned (deficit)	-	-	(405,123)	(7,024,663)	-	(8,117,234)	-	(15,547,020)
Total fund balances	448,515	386,657	774,676	3,689,146	11,520,329	(1,740,795)	1,478,885	16,557,413
Total liabilities, deferred inflows of resources and fund balances	\$ 1,390,896	\$ 2,883,950	\$ 7,324,287	\$ 13,526,864	\$ 11,555,970	\$ 19,422,269	\$ 1,847,277	\$ 57,951,513

Municipality of San Juan
(Commonwealth of Puerto Rico)
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-
Other Governmental Funds
Fiscal Year Ended June 30, 2014

	Other special revenue funds							Total other special revenue funds
	Department of justice fund	Department of labor fund	Health and human services fund	Housing and urban development fund	Independent capital fund	Miscellaneous special revenue fund	Retirement community fund	
REVENUES:								
Charge for services	\$ -	\$ -	\$ 9,728	\$ -	\$ -	\$ -	\$ -	\$ 9,728
Interests on deposits	-	-	-	3,928	828,262	6,056	-	838,246
Intergovernmental grants and contributions:								
Federal	1,249,712	3,869,354	43,710,354	47,101,871	156,680	13,459,626	1,827,843	111,375,440
Local	-	-	-	-	-	813,674	-	813,674
Miscellaneous revenues	-	-	-	383,571	-	8,730	544,098	936,399
Total revenues	1,249,712	3,869,354	43,720,082	47,489,370	984,942	14,288,086	2,371,941	113,973,487
EXPENDITURES:								
Current:								
General government	115,757	49,320	8,295,897	407,818	-	858,930	-	9,727,722
Public safety	864,984	-	-	1,231	-	2,128,375	-	2,994,590
Urban affairs	-	-	40,600,170	-	-	1,605,914	1,822,302	44,028,386
Culture and recreation	-	-	1,102,775	-	-	158,500	-	1,261,275
Health and welfare	60,000	-	9,879,284	2,764,272	-	1,834,162	-	14,537,718
Urban development	-	-	-	-	-	158,816	-	158,816
Economic development	-	3,378,598	-	744,175	475,864	44,446	-	4,643,083
Education	-	441,440	27,813,782	360,395	-	9,437,422	-	38,053,039
Capital outlays	-	-	-	2,629,307	-	-	-	2,629,307
Debt service	-	-	-	3,905,000	-	-	439,312	4,344,312
Principal	-	-	-	1,498,085	-	-	240,278	1,738,363
Interests	-	-	-	-	-	-	-	-
Total expenditures	1,040,741	3,869,358	45,988,963	54,013,228	475,864	16,226,566	2,501,892	124,116,612
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	208,971	(4)	(2,268,881)	(6,523,858)	509,078	(1,938,480)	(129,951)	\$ (10,143,214)
OTHER FINANCING SOURCES (USES):								
Transfer from other governmental funds	-	62,441	2,483,272	5,406,259	-	5,639,399	-	13,591,370
Transfer to other governmental funds	(139,537)	(42,984)	(113,124)	(244,997)	(5,403,155)	(1,280,498)	-	(7,224,295)
Total other financing sources (uses), net	(139,537)	19,457	2,370,148	5,161,262	(5,403,155)	4,358,901	-	6,367,075
NET INCREASE (DECREASE) IN FUND BALANCES (DEFICIT)	69,434	19,453	101,267	(1,362,596)	(4,894,077)	2,420,421	(129,951)	(3,776,049)
FUND BALANCES AT BEGINNING OF YEAR	379,081	367,204	673,409	5,051,742	16,414,406	(4,161,216)	1,608,836	20,333,462
FUND BALANCES AT END OF YEAR	\$ 448,515	\$ 386,657	\$ 774,676	\$ 3,689,146	\$ 11,520,329	\$ (1,740,795)	\$ 1,478,885	\$ 16,557,413

STATISTICAL SECTION

Municipality of San Juan
Commonwealth of Puerto Rico

Statistical Section

Fiscal Year Ended June 30, 2014

STATISTICAL SECTION

This part of the Comprehensive Annual Financial Information Report presents detailed information as a context for understanding what the governmental activities information in the basic financial statements, note disclosures, and required supplementary information says about the Municipality's overall financial position, results of operations and cash flows.

	Page
FINANCIAL TRENDS	
These schedules contain trend information to help the reader understand how the Municipality's financial performance and well-being have changed over time.	84-89
REVENUE CAPACITY	
These schedules contain information to help the reader assess the Municipality's most significant local revenue sources, the property tax and municipal license tax.	90-95
DEBT CAPACITY	
These schedules present information to help the reader assess the affordability of the Municipality's current levels of outstanding debt and the Municipality's ability to issue additional debt in the future.	96-98
DEMOGRAPHIC AND ECONOMIC INFORMATION	
These schedules offer demographic and economic indicators to help the reader understand the environment within the Municipality's financial activities take place.	99-100
OPERATING INFORMATION	
These schedules contain service and infrastructure data to help the reader understand how the information in the Municipality's financial report relates to the services the government provides and the activities it performs.	101-103

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports and/or the basic financial statements for the relevant fiscal year. Certain items were reclassified to conform to the current year presentation.

Note: The laws and regulations of the Commonwealth of Puerto Rico establish strict confidentiality requirements about taxpayer's and employer's information. Accordingly, this statistical section does not include information about the ten principal taxpayers of property taxes and municipal taxes, and information about principal private employers.

Municipality of San Juan
Commonwealth of Puerto Rico
Net Position by Component - Governmental Activities
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
NET POSITION:										
Net investment in capital assets	\$333,037,011	385,429,545	248,446,837	273,582,683	252,341,458	202,598,411	203,410,069	231,536,767	262,474,334	\$ 247,300,514
Restricted	104,887,271	99,003,313	84,791,476	52,861,932	43,547,515	33,521,750	19,637,401	91,029,309	96,732,264	84,659,447
Unrestricted	(473,956,363)	(534,637,161)	(382,617,676)	(316,242,583)	(309,227,240)	(262,419,696)	(266,523,215)	(397,805,969)	(313,110,330)	(266,753,874)
Total	\$ (36,032,081)	(50,204,303)	(49,379,363)	10,202,032	(13,338,267)	(26,299,535)	(43,475,745)	(75,239,893)	46,096,268	\$ 65,206,087

Municipality of San Juan Commonwealth of Puerto Rico

Changes in Net Position – Governmental and Business-Type Activities Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
EXPENSES										
Governmental Activities:										
General government	\$ 114,752,658	108,722,883	105,098,802	143,281,513	118,236,295	109,022,241	130,921,186	278,120,955	101,803,875	\$ 88,431,998
Public safety	60,840,546	63,404,941	76,462,134	63,909,738	64,184,743	61,833,589	55,257,432	53,801,241	52,287,545	47,699,570
Urban affairs	139,050,823	81,714,664	80,339,038	78,562,145	76,920,317	78,205,038	73,779,395	70,232,876	58,182,626	60,131,135
Culture and recreation	24,639,844	23,910,472	26,167,621	24,100,051	26,318,795	24,585,528	20,503,405	16,885,637	19,429,725	20,418,258
Health and welfare	200,710,231	247,560,973	252,339,989	264,979,765	259,578,631	261,505,290	252,589,628	242,464,686	255,081,642	266,847,420
Urban development	6,881,842	52,387,815	50,644,013	52,231,792	57,456,367	57,683,569	51,247,211	60,102,476	53,542,461	53,464,789
Economic development	22,509,693	24,760,145	21,760,187	26,033,334	25,423,606	22,500,025	24,567,119	26,634,239	25,627,780	29,078,967
Education	53,964,694	19,588,591	20,232,620	20,202,797	21,070,955	16,075,081	12,595,026	11,244,378	9,384,436	9,621,025
Interest on long-term debt	40,907,845	36,571,971	28,312,858	31,800,672	30,305,957	35,458,693	31,646,329	33,610,514	24,116,637	25,516,292
Total Governmental Activities:	664,258,177	658,622,455	707,357,892	705,002,807	679,495,666	666,869,054	653,107,408	793,007,002	598,756,727	601,209,454
Business-Type Activities:										
International Center	5,549,213	4,886,904	3,290,474	1,730,193	-	-	-	-	-	-
Total Expenses	669,807,390	663,509,359	710,648,366	706,733,000	679,495,666	666,869,054	653,107,408	793,007,002	598,756,727	601,209,454
PROGRAM REVENUES										
Charges for services:										
General government	3,203,678	6,519,557	6,728,846	9,720,804	5,814,947	5,240,933	5,029,324	9,491,555	5,672,377	6,276,460
Public Safety	985,799	356,927	603,075	-	-	-	-	-	-	-
Urban affairs	40,673	19,886	16,264	-	-	-	-	-	-	-
Culture and recreation	1,180,781	2,599,169	2,121,060	-	-	-	-	-	-	-
Health and welfare	32,717,879	32,468,300	27,090,065	45,153,219	40,993,473	41,950,950	38,609,359	33,381,497	38,856,492	39,142,387
Urban development	2,315,772	2,092,641	2,744,380	-	-	-	-	-	-	-
Economic development	6,006,089	4,511,108	4,886,980	-	-	-	-	-	-	-
Education	3,649,766	4,012,482	4,644,102	-	-	-	-	-	-	-
Others	-	-	-	13,425,903	13,608,580	10,876,309	9,503,177	5,172,360	8,971,706	6,905,229
Operating grants and contributions	101,103,403	130,184,145	131,650,087	136,487,833	121,008,309	110,519,634	118,799,181	118,213,207	118,837,739	119,609,044
Capital grants and contributions	12,099,640	5,051,090	3,594,875	6,329,768	4,610,369	1,047,853	-	1,059,900	1,568,275	1,701,006
Total Governmental Activities:	163,303,480	187,815,305	184,079,734	211,117,527	186,035,678	169,635,679	171,941,041	157,318,519	173,906,589	173,634,126
Business-Type Activities:										
International Center	2,528,865	2,180,050	3,057,189	1,528,595	-	-	-	-	-	-
Total Program Revenues	165,832,345	189,995,355	187,136,923	212,646,122	186,035,678	169,635,679	171,941,041	157,318,519	173,906,589	173,634,126
NET EXPENSES										
Governmental activities	(500,954,697)	(470,807,150)	(523,278,158)	(493,885,280)	(493,459,988)	(497,233,375)	(481,166,367)	(635,688,483)	(424,850,138)	(427,575,328)
Business-type activities	(3,020,348)	(2,706,854)	(233,285)	(201,598)	-	-	-	-	-	-
TOTAL NET EXPENSES	(503,975,045)	(473,514,004)	(523,511,443)	(494,086,878)	(493,459,988)	(497,233,375)	(481,166,367)	(635,688,483)	(424,850,138)	(427,575,328)

(Continued)

Municipality of San Juan Commonwealth of Puerto Rico

Changes in Net Position – Governmental and Business-Type Activities Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
GENERAL REVENUES AND SPECIAL ITEMS										
Taxes	467,501,978	427,379,143	461,948,166	470,183,990	467,194,353	453,901,477	470,370,533	433,643,709	361,253,901	384,676,150
Grants and contributions not restricted to specific programs	401,800,055	38,465,337	40,265,139	38,030,597	30,379,513	30,358,872	27,889,291	27,077,200	31,433,657	26,118,653
Interests on deposit	6,048,121	7,421,454	3,871,392	2,565,220	3,884,813	5,385,748	6,688,900	7,768,600	5,932,657	2,834,672
Gain on sale of capital assets	4,300,997	7,850,991	5,250,763	6,645,772	4,963,287	4,418,667	7,981,791	10,740,394	3,858,933	-
Miscellaneous revenues	-	-	-	-	-	-	-	35,122,419	3,261,171	5,077,958
Special items	-	-	-	-	-	20,344,821	-	-	-	-
Internal transfers	(2,904,232)	(1,967,493)	-	-	-	-	-	-	-	-
Total Governmental Activities	515,126,919	479,199,432	511,335,460	517,425,579	506,421,256	514,409,585	512,930,515	514,352,322	405,740,319	418,707,433
Business-Type Activities:										
Transfers	2,904,232	1,967,493	-	-	-	-	-	-	-	-
Total general revenues and special item	518,031,151	481,166,925	511,335,460	517,425,579	506,421,256	514,409,585	512,930,515	514,352,322	405,740,319	418,707,433
NET INCREASE (DECREASE) IN NET POSITION										
Governmental activities	14,172,222	8,342,282	(11,942,698)	23,540,299	-	-	-	-	-	-
Business-type activities	(116,116)	(739,361)	(233,285)	(201,598)	12,961,268	17,176,210	31,764,448	(12,133,616)	(19,109,819)	(8,867,895)
TOTAL GOVERNMENT	\$ 14,056,106	\$ 7,602,921	\$ (12,175,983)	\$ 23,338,701	\$ 12,961,268	\$ 17,176,210	\$ 31,764,448	\$ (12,133,616)	\$ (19,109,819)	\$ (8,867,895)

(Concluded)

Note: The municipal licenses tax rates, construction excise tax and property tax rates were substantially revised in 2003, 2004 and 2005, respectively. A new Sales and Usage Tax was effective on 2007.

Municipality of San Juan Commonwealth of Puerto Rico

Fund Balances - Governmental Funds Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Fund₁:										
Nonspendable	\$ 8,197,061	14,126	20,554	15,619	7,517	2,876	37,435	22,875	68,098	\$ 4,393
Restricted	14,076,266	95,760	2,645	3,297	3,296	461	3,176	3,029	4,381	2,791
Committed	-	-	-	245	5,118	1,544	983	494	98	79
Unassigned	(1,098,271)	(99,182)	(127,761)	(35,345)	(34,370)	(23,328)	(61,105)	(56,430)	(104,350)	(42,467)
Total general fund₂	\$ 21,175,056	\$ 10,704	\$ (104,562)	\$ (16,184)	\$ (18,439)	\$ (18,447)	\$ (19,511)	\$ (30,032)	\$ (31,773)	\$ (35,204)
All Other governmental funds:										
Nonspendable	\$ 5,530,872	-	10,418	10,911	11,404	12,269	47	1,988	2,264	2,349
Restricted	176,593,758	202,953	82,238	56,888	48,204	40,574	42,474	60,815	54,308	67,236
Committed	-	-	110,949	64,147	63,912	77,572	131,887	53,833	81,130	71,144
Unassigned	(15,547,020)	(16,243)	(7,645)	(9,287)	(5,363)	(5,211)	(4,961)	(7,930)	(6,051)	(6,607)
Total all other governmental funds	\$ 166,577,610	\$ 186,710	\$ 195,960	\$ 122,659	\$ 118,157	\$ 125,204	\$ 169,447	\$ 108,706	\$ 131,651	\$ 134,122

Note 1: The Municipality implemented GASB Statements No. 54 as of July 1, 2008. Fund balance classifications are presented in this schedule to conform to the provisions of this statement by reclassifying fund balances for all prior periods presented.

Note 2: Detail regarding the Municipality's categories and classifications of fund balances can be found in the notes to the basic financial statements.

Municipality of San Juan Commonwealth of Puerto Rico

Changes in Fund Balances – Governmental Funds (in Thousands)
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
REVENUES										
Property taxes ₁	\$ 241,423	234,752	260,217	237,819	238,690	214,652	217,728	217,513	206,395	\$ 242,475
Municipal license taxes ₁	121,434	118,402	125,998	153,975	157,380	156,033	149,947	145,599	131,369	125,253
Sales and usage taxes ₂	61,323	58,033	56,876	56,405	54,487	54,646	54,799	41,362	-	-
Construction excise taxes ₃	22,868	13,640	18,858	21,986	16,637	28,571	47,896	29,170	23,490	16,949
Charges for services	50,048	50,808	48,834	68,300	59,533	58,071	53,142	48,045	53,500	52,323
Interests on deposits	6,048	1,360	3,871	2,565	3,884	5,386	6,689	7,769	5,933	2,835
Intergovernmental grants and contribution:										
Federal	111,375	129,284	133,299	142,589	124,905	105,431	109,857	107,605	112,243	119,609
Local	41,534	38,648	42,211	38,259	31,979	36,492	36,832	28,746	39,597	27,820
Miscellaneous revenues	4,301	13,049	5,251	6,645	4,963	4,419	7,982	35,122	3,261	5,078
Totals	660,354	657,977	695,415	728,543	692,458	663,701	684,872	660,931	575,788	592,342
EXPENDITURES										
General government	116,716	95,492	144,371	150,800	138,345	109,552	144,337	170,590	95,055	100,874
Public safety	56,942	63,513	64,907	61,306	60,293	57,950	52,950	52,507	50,081	49,414
Urban affairs	127,033	62,176	78,672	67,800	74,715	75,228	72,028	67,557	57,716	57,841
Culture and recreation	15,368	15,578	16,558	16,213	18,371	16,818	12,988	11,447	12,655	12,581
Health and welfare	196,816	241,142	246,398	259,064	253,358	252,948	246,932	239,081	247,214	252,609
Urban development	7,198	52,054	50,597	51,826	48,624	49,336	45,088	55,008	49,013	50,353
Economic development	16,863	19,362	15,231	20,523	19,956	18,537	19,247	21,741	21,214	23,161
Education	52,609	18,032	18,522	18,996	19,909	15,332	12,245	11,106	9,164	9,372
Capital outlays	29,168	61,888	55,834	39,838	48,527	77,091	43,039	34,783	32,130	42,287
Debt service:										
Principal	89,572	70,645	58,230	55,759	50,126	47,624	41,911	40,385	35,157	37,186
Interests	44,044	33,842	28,313	31,801	30,306	35,459	31,646	33,611	28,140	25,516
Totals	752,329	733,724	777,633	773,926	762,530	755,875	722,411	737,816	637,539	661,194
DEFICIENCY OF REVENUES										
UNDER EXPENDITURES										
	(91,975)	(75,747)	(82,218)	(45,383)	(70,072)	(92,174)	(37,539)	(76,885)	(61,751)	(68,852)

(Continued)

Municipality of San Juan Commonwealth of Puerto Rico

Changes in Fund Balances – Governmental Funds (in Thousands) Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
OTHER FINANCING SOURCES (USES):										
Transfers from other governmental funds	\$ 24,102	\$ 7,503	\$ 15,826	\$ -	\$ 6,428	\$ 9,368	\$ 5,749	\$ 13,874	\$ 19	\$ -
Bonds issued	85,220	183,730	126,395	26,738	63,035	28,650	108,800	44,941	31,350	31,010
Note payable issued	-	-	-	25,386	-	-	-	-	24,655	17,253
Lease agreements issued	-	-	-	-	-	-	-	-	-	594
Refunding bond issued	-	-	-	-	-	-	-	-	-	22,180
Refunding note issued	-	-	-	-	-	-	-	-	-	40,033
Payments of refunded bond	-	-	-	-	-	-	-	-	-	(61,965)
Advances from CRIM	-	-	-	-	-	-	-	-	687	5,834
Transfers to proprietary fund	(2,904)	(1,967)	-	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	10,741	6,021	-
Transfers to other governmental funds	(24,102)	(7,503)	(15,826)	-	(6,428)	(9,368)	(5,749)	(13,874)	(19)	-
Total	82,316	181,763	126,395	52,124	63,035	28,650	108,800	55,682	62,713	54,939
SPECIAL ITEMS										
NET INCREASE (DECREASE) IN FUND BALANCES	\$ (9,659)	\$ 106,014	\$ 44,177	\$ 6,741	\$ (7,037)	\$ (43,179)	\$ 71,261	\$ (21,203)	\$ 962	\$ (13,913)
Debt service as a percentage of non capital expenditures	18.5%	18.4%	13.6%	11.9%	11.3%	12.2%	10.8%	10.5%	10.5%	10.1%

(Concluded)

Note 1: The municipality licenses tax rates were substantially revised in 2003 and 2010 resulting in increases of 28% and 10% of this tax revenue from 2003 to June 30, 2005 and in 2010 from prior year, respectively.

Note 2: A new sales and usage taxes was effective in 2007.

Note 3: The construction excise tax rates were substantially revised in 2005 and a new hotel room tax was effective in 2007, but was eliminated in 2009.

Note 4: License and permits together with fines and forfeitures were presented as part of charges for services in 2013.

Municipality of San Juan
Commonwealth of Puerto Rico

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Tax Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Year	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2014 ₁	\$ 263,214,542	\$ 159,769,657	60.70%	64,184,727	\$ 223,954,384	85.08%
2013	263,214,542	159,769,657	60.70%	64,184,727	223,954,384	85.08%
2012	299,362,852	201,376,960	67.27%	55,076,419	256,453,379	85.67%
2011	262,744,836	176,744,509	67.27%	48,339,281	225,083,790	85.67%
2010	239,352,137	160,241,499	66.95%	60,692,233	220,933,732	92.30%
2009	223,035,646	147,854,065	66.29%	48,460,848	196,314,913	88.02%
2008	237,779,692	185,900,468	78.18%	31,373,281	217,273,749	91.38%
2007	222,453,686	194,358,542	87.37%	17,466,237	211,824,779	95.22%
2006	222,453,686	192,225,788	86.41%	15,568,206	207,793,994	93.41%
2005	201,210,440	178,475,279	88.70%	11,670,294	190,145,573	94.50%

Source: Municipal Revenue Collection Center.

Note 1: The figures for 2014 disclosed above were estimated since actual information was not readily available.

Municipality of San Juan
Commonwealth of Puerto Rico

Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Gross Valuation	Exempted Value	Exonerated Value	Net Assessed Value	Tax Effective Rate
2014 ₃	\$ 26,627,930,000	3,407,150,005	8,889,249,422	14,331,530,573	8.15%
2013	29,317,201,784	3,407,150,005	8,889,249,422	17,020,802,357	8.15%
2012 ₂	28,880,260,000	2,776,204,488	8,814,054,942	17,290,000,570	8.15%
2011 ₁	28,746,074,327	2,763,305,474	8,773,102,406	17,209,666,447	8.15%
2010 ₁	27,698,472,939	2,419,715,471	8,773,878,912	16,504,878,556	7.01%
2009	4,205,118,698	453,199,976	875,713,532	2,876,205,190	7.75%
2008	4,251,598,060	397,563,359	877,948,279	2,976,086,422	7.99%
2007	4,230,664,852	397,563,359	877,948,279	2,955,153,214	7.53%
2006	4,127,182,083	348,451,640	855,064,963	2,923,665,480	7.61%
2005	4,122,437,982	348,451,640	855,064,966	2,918,921,376	6.89%

Source: Municipal Revenue Collection Center.

Note: The actual value of taxable property tax has not been reported since the current property tax law imposes the tax based on the assessed value at 1957 market prices.

Note 1: On July 10, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 37 for the purpose of, among others, increasing the real property assessed value by ten times and increasing 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.

Note 2: The figures for 2012 disclosed above were estimated since actual information was not readily available. However, the management of the Municipality concluded that the estimates for 2012 would not significantly differ from actual figures.

Note 3: The figures for 2014 disclosed above were estimated since actual information was not readily available.

Municipality of San Juan
Commonwealth of Puerto Rico

Property Tax Rates
Last Ten Fiscal Years

Real Property				
Fiscal Year	General Purposes	Debt Services	Government of Puerto Rico	Total
2014	6.00%	3.50%	1.03%	10.53%
2013	6.00%	3.50%	1.03%	10.53%
2012	6.00%	3.50%	1.03%	10.53%
2011	6.00%	3.50%	1.03%	10.53%
2010	6.00%	3.50%	1.03%	10.53%
2009	6.00%	2.00%	1.03%	9.03%
2008	6.00%	2.00%	1.03%	9.03%
2007	6.00%	2.00%	1.03%	9.03%
2006	6.00%	2.00%	1.03%	9.03%
2005	6.00%	2.00%	1.03%	9.03%

Personal Property				
Fiscal Year	General Purposes	Debt Services	Government of Puerto Rico	Total
2014	4.00%	3.50%	1.03%	8.53%
2013	4.00%	3.50%	1.03%	8.53%
2012	4.00%	3.50%	1.03%	8.53%
2011	4.00%	3.50%	1.03%	8.53%
2010	4.00%	3.50%	1.03%	8.53%
2009	4.00%	2.00%	1.03%	7.03%
2008	4.00%	2.00%	1.03%	7.03%
2007	4.00%	2.00%	1.03%	7.03%
2006	4.00%	2.00%	1.03%	7.03%
2005	4.00%	2.00%	1.03%	7.03%

Source: Finance Department of the Municipality of San Juan.

Municipality of San Juan
Commonwealth of Puerto Rico
Municipal Licenses Tax Filers by Income Level
Last Ten Fiscal Years

2014				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	22,180	90.05%	\$ 3,510,154	16.05%
\$1,000 - \$100,000	2,425	9.85%	13,034,891	59.60%
Over \$100,000	25	0.10%	5,323,937	24.34%
	<u>24,630</u>	<u>100.00%</u>	<u>\$ 21,868,982</u>	<u>100.00%</u>

2013				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	22,890	90.38%	\$ 3,555,701	16.89%
\$1,000 - \$100,000	2,413	9.53%	13,578,014	64.51%
Over \$100,000	23	0.09%	3,912,912	18.59%
	<u>25,326</u>	<u>100.00%</u>	<u>\$ 21,046,627</u>	<u>100.00%</u>

2012				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	22,869	90.63%	\$ 3,477,811	16.85%
\$1,000 - \$100,000	2,342	9.28%	13,335,280	64.62%
Over \$100,000	21	0.08%	3,821,924	18.52%
	<u>25,232</u>	<u>100.00%</u>	<u>\$ 20,635,015</u>	<u>100.00%</u>

2011				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	22,766	90.67%	\$ 3,525,611	17.11%
\$1,000 - \$100,000	2,324	9.26%	13,959,370	67.77%
Over \$100,000	18	0.07%	3,114,563	15.12%
	<u>25,108</u>	<u>100.00%</u>	<u>\$ 20,599,544</u>	<u>100.00%</u>

2010				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	20,422	90.17%	\$ 3,458,912	14.72%
\$1,000 - \$100,000	2,198	9.70%	13,264,438	56.44%
Over \$100,000	29	0.13%	6,777,072	28.84%
	<u>22,649</u>	<u>100.00%</u>	<u>\$ 23,500,422</u>	<u>100.00%</u>

(Continued)

Municipality of San Juan
Commonwealth of Puerto Rico
Municipal Licenses Tax Filers by Income Level
Last Ten Fiscal Years

2009				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	20,422	90.17%	\$ 3,458,912	14.72%
\$1,000 - \$100,000	2,198	9.70%	13,264,438	56.44%
Over \$100,000	29	0.13%	6,777,072	28.84%
	<u>22,649</u>	<u>100.00%</u>	<u>\$ 23,500,422</u>	<u>100.00%</u>

2008				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	20,987	89.86%	\$ 3,649,010	17.76%
\$1,000 - \$100,000	2,347	10.05%	13,761,894	66.97%
Over \$100,000	20	0.09%	3,139,838	15.28%
	<u>23,354</u>	<u>100.00%</u>	<u>\$ 20,550,742</u>	<u>100.00%</u>

2007				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	20,131	89.46%	\$ 3,551,983	17.91%
\$1,000 - \$100,000	2,354	10.46%	13,405,025	67.59%
Over \$100,000	18	0.08%	2,876,175	14.50%
	<u>22,503</u>	<u>100.00%</u>	<u>\$ 19,833,183</u>	<u>100.00%</u>

2006				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	17,757	88.90%	\$ 3,402,152	14.03%
\$1,000 - \$100,000	2,185	10.94%	13,620,162	56.17%
Over \$100,000	32	0.16%	7,224,400	29.80%
	<u>19,974</u>	<u>100.00%</u>	<u>\$ 24,246,714</u>	<u>100.00%</u>

2005				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	16,027	87.74%	\$ 3,071,341	14.29%
\$1,000 - \$100,000	2,210	12.10%	12,857,944	59.84%
Over \$100,000	29	0.16%	5,559,603	25.87%
	<u>18,266</u>	<u>100.00%</u>	<u>\$ 21,488,888</u>	<u>100.00%</u>

(Concluded)

Source: Finance Department of the Municipality of San Juan.

Municipality of San Juan
Commonwealth of Puerto Rico

Municipal Licenses Tax Rates
Last Ten Fiscal Years

Fiscal Year	Financial Businesses		Non-Financial Businesses		
	All	1987 Special Law	under \$1 million	\$1 million and over	1987 Special Law
2014	1.50%	1.00%	0.20%	0.50%	0.30%
2013	1.50%	1.00%	0.20%	0.50%	0.30%
2012	1.50%	1.00%	0.20%	0.50%	0.30%
2011	1.50%	1.00%	0.20%	0.50%	0.30%
2010	1.50%	1.00%	0.20%	0.50%	0.30%
2009	1.50%	1.00%	0.20%	0.50%	0.30%
2008	1.50%	1.00%	0.20%	0.50%	0.30%
2007	1.50%	1.00%	0.20%	0.50%	0.30%
2006	1.50%	1.00%	0.20%	0.50%	0.30%
2005	1.50%	1.00%	0.26%	0.50%	0.30%

Source: Finance Department of the Municipality of San Juan.

Municipality of San Juan Commonwealth of Puerto Rico

*Ratios Of Outstanding Debt by Type in Thousands, Except Per Capita Amount
Last Ten Fiscal Years*

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
(In Thousands)										
Bonds payable	\$ 436,591	\$ 479,437	\$ 479,437	\$ 394,138	\$ 410,636	\$ 384,158	\$ 389,682	\$ 384,794	\$ 367,075	\$ 369,945
Bonds anticipation notes	-	-	-	1,873	-	-	-	-	-	-
Mortgage payable	2,622	3,062	3,465	3,836	4,177	4,490	4,778	5,042	5,285	5,508
Notes payable	442,056	401,170	213,966	228,856	217,525	230,781	243,287	182,794	194,499	168,365
Obligations under capital leases	-	-	-	-	-	-	657	1,800	3,016	4,521
Total	\$ 881,269	\$ 883,669	\$ 696,868	\$ 628,703	\$ 632,338	\$ 619,429	\$ 638,404	\$ 574,430	\$ 569,875	\$ 548,339
Percentage of personal income	13.63%	12.84%	10.97%	9.92%	4.71%	4.97%	5.70%	5.83%	6.65%	7.24%
Total long-term debt per capita ₁	\$ 2,373	\$ 2,235	\$ 1,788	\$ 1,590	\$ 1,478	\$ 1,445	\$ 1,486	\$ 1,334	\$ 1,320	\$ 1,267
Bonds payable per capita ₁	\$ 1,176	\$ 1,213	\$ 1,230	\$ 997	\$ 960	\$ 896	\$ 907	\$ 893	\$ 850	\$ 855
Percentage of bonds payable of net assessed value of property	2.57%	2.82%	2.77%	2.29%	2.49%	13.36%	13.09%	13.02%	12.56%	12.67%

Note: Detail regarding the Municipality's outstanding long-term debt can be found in Note 11 to the financial statements.

Municipality of San Juan
Commonwealth of Puerto Rico
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	In thousands										Percentage of Assessed	
	Population ₂	Net Assessed Value ₄	Less: GO's			Total Bonded Debt	Percentage of Personal Income	Value of Taxable Property	Bonded Debt Per Capital ₁	Assessed		
			General Obligation Bonds	Debt Service Funds	Bonds					Value	Property	
2014	371,309	\$ 14,331,530	\$ 436,591	\$ 70,965	\$ 365,626	5.65%	2.55%	\$ 985				
2013	395,326	\$ 17,020,802	\$ 479,437	\$ 63,712	\$ 415,725	6.04%	2.44%	\$ 1,052				
2012 ₃	389,714	\$ 17,290,001	\$ 479,437	\$ 66,049	\$ 413,388	6.51%	2.39%	\$ 1,061				
2011 ₃	395,326	\$ 17,209,666	\$ 394,138	\$ 35,463	\$ 358,675	2.67%	2.08%	\$ 907				
2010 ₃	427,789	\$ 16,504,879	\$ 410,636	\$ 19,627	\$ 391,009	3.14%	2.37%	\$ 914				
2009	428,765	\$ 2,876,205	\$ 384,158	\$ 11,201	\$ 372,957	2.99%	12.97%	\$ 870				
2008	429,743	\$ 2,976,086	\$ 389,682	\$ 14,524	\$ 375,158	3.35%	12.61%	\$ 873				
2007	430,724	\$ 2,955,153	\$ 384,794	\$ 9,404	\$ 375,390	3.81%	12.70%	\$ 872				
2006	431,707	\$ 2,923,665	\$ 367,075	\$ 10,355	\$ 356,720	4.16%	12.20%	\$ 826				
2005	432,692	\$ 2,918,921	\$ 369,945	\$ 9,175	\$ 360,770	4.77%	12.36%	\$ 834				

Source: Municipal Revenue Collection Center

Note 1: Details regarding the Municipality's outstanding debt can be found in the notes to the basic financial statements.

Note 2: Population data can be found in the accompanying Schedule of Demographic and Economic Statistic.

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

Note 4: The net assessed value figures for 2014 disclosed above were estimated since actual information was not readily available.

Municipality of San Juan
Commonwealth of Puerto Rico
Legal Debt Margin Information (in Thousands)
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Legal Debt Margin Calculation as of June 30, 2014:										
Assessed Value of Taxable Property	\$ 2,662,793	\$ 3,143,881	\$ 2,474,638	\$ 2,515,932	\$ 2,769,847	\$ 420,512	\$ 425,160	\$ 423,067	\$ 412,718	\$ 412,244
Legal debt limit - 10% of assessed value of taxable property	\$ 2,662,793	(845,119)	(413,388)	(358,675)	(391,009)	(372,957)	(375,158)	(375,390)	(356,720)	(360,770)
Debt applicable to limit:										
General obligations bonds										
Less: GO's Debt Service Fund balance										
Total net debt applicable to limit	\$ 2,297,167	\$ 2,298,762	\$ 2,061,250	\$ 2,157,257	\$ 2,378,838	\$ 47,555	\$ 50,002	\$ 47,677	\$ 55,998	\$ 51,474
Legal debt margin										
Total net debt applicable to the limit	13.73%	26.88%	16.70%	14.26%	14.12%	88.69%	88.24%	88.73%	86.43%	87.51%
as a percentage of debt limit										

Note: Under Puerto Rico law, the Municipality's outstanding general obligation debt should not exceed 10 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general bond obligations.

Municipality of San Juan Commonwealth of Puerto Rico

Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population ₁	Personal Income	Per Capita ₄	Inflation Rate _{2,3}	Employment ₃	Unemployment Rate ₃
2014	371,309	\$ 6,465,603,617	\$ 17,413	0.90%	126,000	9.90%
2013	395,326	\$ 6,883,811,638	\$ 17,413	0.90%	126,700	9.10%
2012	389,714	\$ 6,352,338,200	\$ 16,300	1.30%	135,600	11.00%
2011	395,326	\$ 6,337,471,106	\$ 16,031	1.80%	134,900	11.70%
2010	427,789	\$ 13,424,013,893	\$ 31,380	2.00%	139,900	11.90%
2009	428,765	\$ 12,458,000,705	\$ 29,056	8.00%	150,000	9.60%
2008	429,743	\$ 11,208,632,880	\$ 26,082	11.40%	157,400	8.03%
2007	430,724	\$ 9,845,941,714	\$ 22,859	14.10%	165,400	7.40%
2006	431,707	\$ 8,573,772,511	\$ 19,860	15.10%	172,600	6.70%
2005	432,692	\$ 7,571,220,066	\$ 17,498	13.50%	174,200	7.70%

Note: 1. Federal Census Bureau and Puerto Rico Planning Board

2. Government Development Bank of Puerto Rico

3. Department of Labor and Human Resources of Commonwealth

4. Information for 2014 was estimated using 2013 actual figures. Actual figures for 2014 were unavailable.

Population Density	
Square Miles	Population Per Square Mile
47.8	7,768

Municipality of San Juan
Commonwealth of Puerto Rico

Construction and Bank Deposits

Last Ten Fiscal Years

Calendar year	Commercial Construction		Residential Construction	
	Square feet of site approved	Value in (thousands of dollars)	Square feet of site approved	Value in (thousands of dollars)
2014	2,093,196	\$ 181,810	422,387	\$ 22,223
2013	6,733,092	\$ 172,591	2,360,150	\$ 27,106
2012	2,916,665	\$ 320,833	1,641,086	\$ 98,465
2011	594,548	\$ 65,400	726,649	\$ 43,599
2010	435,135	\$ 51,736	625,596	\$ 37,536
2009	214,812	\$ 14,608	1,013,914	\$ 60,525
2008	1,163,963	\$ 11,561	2,350,640	\$ 182,376
2007	618,033	\$ 38,891	3,466,818	\$ 83,463
2006	260,952	\$ 6,558	2,826,717	\$ 153,740
2005	130,745	\$ 7,058	2,233,260	\$ 110,695

- Notes:
1. Office of Permits of the Municipality of San Juan.
 2. Commissioner of Financial Institutions.

Municipality of San Juan Commonwealth of Puerto Rico

*Number of Regular Employees by Function
Last Ten Fiscal Years*

Function	Fiscal Year									
	2014	2013	2012 ₃	2011	2010	2009 ₂	2008	2007 ₁	2006	2005
General government	469	438	517	517	559	557	493	499	647	649
Public safety	1,140	1,176	1,389	1,389	1,349	1,329	1,270	1,319	1,506	1,476
Urban affairs	1,076	924	1,092	1,092	1,208	1,189	758	721	1,098	1,090
Culture and recreation	221	258	305	305	332	330	161	147	193	191
Health and welfare	2,346	2,237	2,643	2,643	2,642	2,604	2,499	2,522	3,187	3,193
Urban development	272	42	50	50	40	40	34	87	113	90
Economic development	254	272	321	321	405	402	349	365	451	446
Education	128	113	133	133	144	358	131	123	136	133
Total	5,906	5,460	6,450	6,450	6,679	6,809	5,695	5,783	7,331	7,268

Source: Office of Human Resources of the Municipality of San Juan.

Note: A regular employee is scheduled to work 1,820 hours per year. (7 hours per day by 52 weeks) including, among others, holidays, vacation and sick leave.

Note 1: The Municipality provided two (2) voluntary termination programs that were effective during the fiscal year ended June 30, 2007. A total of 1,117 employees retired through such programs.

Note 2: The Municipality charged the status of all temporary and irregular employees to regular employees beginning as of July 1, 2008 and thereafter. A total of 1,486 employees were reclassified.

Note 3: On April 4, 2013 Law No. 3 as enacted to amend the provision of Law No. 447 of 1951 Know as the Retirement System Law No. 3 modified, among other things, the retirement eligibility requirements of all governmental employees. A significant reduction in the workforce of the Municipality was experienced during the fiscal year ended June 30, 2013 due to the effects of law No. 3.

Municipality of San Juan
Commonwealth of Puerto Rico
Operating Indicators by Function
Last Ten Fiscal Years

Function	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Public safety										
Police officers	983	1,009	1,141	1,141	1,135	1,101	1,133	1,112	1,190	1,177
Police trainings ³	46	46	100	100	158	172	225	125	172	197
Emergency trainings	35	242	297	297	220	161	149	217	196	171
Urban affairs										
Walkside construction (lineal ft.)	23,166	-	46,847	46,847	28,510	36,822	46,837	40,904	30,028	15,562
Waste disposal collected (ton.)	210,245	205,489	221,187	221,187	230,462	232,435	235,219	240,665	238,899	228,983
Culture and recreation										
Cultural events ³	141	141	119	119	72	135	155	150	120	265
Attendance ³	n/a	n/a	n/a	n/a	243,687	554,009	185,455	182,444	160,160	135,000
Enrollment on sport training	24,946	n/a	n/a	n/a	145,230	48,229	16,525	8,033	15,597	5,130
Health and welfare										
Hospital admissions	5,114	4,831	4,359	4,359	4,439	4,805	4,912	4,824	5,107	5,882
Average length of stay	7	6	7	7	7	7	7	6	6	6
Welfare center participants	15,364	18,452	19,697	19,697	9,186	8,814	7,670	6,226	5,153	5,681
Head Start enrollment	3,725	3,914	4,399	4,399	4,431	4,502	4,415	4,287	4,412	4,322
Urban development										
Permits and endorsements	3,800	535	5,639	5,639	4,630	1,113	1,386	1,536	1,713	1,868
Economic development										
Commercial spaces leased	211	171	220	220	215	238	236	265	249	265
Education										
College Enrollment	1,633	1,570	1,720	1,720	1,792	1,355	1,357	1,184	853	961
High School Enrollment	326	267	284	284	242	165	120	115	-	-
Elementary School Enrollment	317	401	190	190	158	240	153	110	-	-

Source: Office of Management and Budget of the Municipality of San Juan.

Note 1: No operating indicators are available for the general government function.

Note 2: The figures for 2012 disclosed above were estimated since actual information was not readily available. However, the management of the Municipality concluded that the estimates for 2012 would not significantly differ from actual figures.

Note 3: The figures for 2014 disclosed above were estimated since actual information was not readily available.

Municipality of San Juan Commonwealth of Puerto Rico

Capital Assets by Function (In thousands)
Last Ten Fiscal Years

Function	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Public safety										
Police:										
Stations and substations	14	24	27	27	27	25	26	24	20	20
Patrol units	1,198	601	419	419	4,120	491	483	408	518	502
Emergency:										
Emergency unit	98	97	83	83	83	88	74	66	55	50
Urban affairs										
Highways and streets (lineal miles)	1,027	1,231	1,231	1,231	1,231	916	853	853	853	836
Public works units	1,354	1,300	1,425	1,425	1,382	1,298	1,305	1,321	1,289	1,298
Culture and recreation										
Parks	330	512	512	512	365	365	365	347	347	347
Culture centers ₃	6	6	5	5	4	4	4	4	4	4
Health and welfare										
Hospital	2	2	2	2	2	2	2	2	2	2
Medical centers	10	11	9	9	9	9	9	9	9	9
Mobile units	4	5	8	8	8	8	8	8	8	6
Community centers	30	-	43	43	38	38	38	38	31	31
Head Start centers	76	74	75	75	75	75	75	79	77	78
Urban development										
Urban centers	4	4	4	4	4	4	4	4	4	4
Economic development										
Commercial spaces	258	231	251	251	251	251	249	278	240	297
Main event venues ₃	31	31	31	31	15	14	9	6	5	5
Education										
College	1	1	1	1	1	1	1	1	1	1
High School	1	1	1	1	1	1	1	1	1	-
Elementary School	1	1	1	1	1	1	1	1	1	-

Source: Various Municipality's departments.

Note 1: No capital assets statistics are available for the general government function.

Note 2: The figures for 2012 disclosed above were estimated since actual information was not readily available. However, the management of the Municipality concluded that the estimates for 2012 would not significantly differ from actual figures.

SUPPLEMENTARY INFORMATION

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Monetary Expenditures	Non- Monetary Expenditures
Department of Agriculture (USDA)			
<i>Pass-through from Commonwealth of Puerto Rico Department of Education</i>			
National School Lunch Program	10.555	\$ 330,515	\$ -
Child and Adult Care Food Program	10.558	2,872,865	
Total Department of Agriculture (USDA)		3,203,380	-
Department of Housing and Urban Development (HUD)			
<i>Direct programs</i>			
Mortgage Insurance Rental Housing for the Elderly	14.138	-	2,622,369
Section 8 Housing Assistance Payments Program	14.195	2,501,892	
<i>Community Development Block Grant Cluster</i>			
Community Development Block Grants/Entitlement Grants	14.218	10,073,137	
Emergency Solutions Grant Program	14.231	822,004	
Supportive Housing Program	14.235	1,482,655	
Shelter Plus Care	14.238	769,057	
Home Investment Partnership Program	14.239	5,893,134	
Housing Opportunities for Persons with AIDS	14.241	5,989,535	
<i>Section 8 Moderate Rehabilitation Cluster</i>			
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	782,418	
Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	14.856	3,553,855	
ARRA-Homeless Prevention and Rapid Re-Housing Program	14.257	2,108	
Section 8 Housing Choice Vouchers	14.871	22,413,514	-
<i>Pass-through from Commonwealth of Puerto Rico/Department of Health</i>			
Housing Opportunities for Persons with AIDS	14.241	2,179,178	
<i>Pass-through from Commonwealth of Puerto Rico Municipal Affairs Office</i>			
Neighborhood Stabilization Program (NSP)	14.256	15,966	
Total Department of Housing & Urban Development (HUD)		56,478,453	2,622,369

(continued)

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Monetary Expenditures	Non-Monetary Expenditures
Department of Justice (DOJ)			
<i>Direct programs</i>			
U.S. Marshall Services- PR Fugitive Task Force	16 000	34,404	
Drug Enforcement Task	16 579	28,780	
Community Prosecution Project Safe Neighborhoods	16 609	127,572	
<i>Pass-through from Commonwealth of Puerto Rico Department of Justice</i>			
Crime Victim Assistant	16 575	60,004	
Total Department of Justice (DOJ)		<u>250,760</u>	<u>-</u>
Department of Labor (DOL)			
<i>Direct programs</i>			
Trade Adjustment Assistance	17 245	427,588	
<i>Pass-through from Commonwealth of Puerto Rico Right to Employment Administration</i>			
WIA -- Adult Program	17 258	1,239,165	
WIA -- Youth Activities	17 259	1,243,404	
WIA -- Dislocated Workers	17 260	959,198	
Total Department of Labor (DOL)		<u>3,869,355</u>	<u>-</u>
Department of Transportation			
<i>Direct programs</i>			
Federal Transit Capital Investment Grants	20 500	94,188	
Federal Transit Formula Grants	20 507	165,260	
<i>Pass-through from Commonwealth of Puerto Rico/Traffic Safety Commission</i>			
Alcohol Impaired Driving Countermeasures Initiatives	20 601	27,618	
Total Department of Transportation (DOT)		<u>287,066</u>	<u>-</u>
Department of Energy			
<i>Direct programs</i>			
ARRA Energy Efficiency and Conservation Block Grant	81 128	672,924	
Total Department of Energy		<u>672,924</u>	<u>-</u>

(continued)

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Monetary Expenditures	Non-Monetary Expenditures
Department of Education (ED)			
<i>Direct programs</i>			
Federal Pell Grant Program (PELL)	84.063	5,493,755	
Federal Supplementary Educational Opportunity Grants	84.007	51,951	
Federal Work-Study Program (FWS)	84.033	68,981	
TRIO Student Support Services	84.042	357,669	
Total Department of Education (ED)		5,972,356	-
Department of Health and Human Services (HHS)			
<i>Direct programs</i>			
Head Start	93.600	27,820,362	
HIV Emergency Relief Project Grants	93.914	12,041,955	
Consolidated Health Centers	93.224	515,878	
Cancer Control	93.399	768,603	
Drug Free Communities Support Programs Grants	93.276	1,244,721	
<i>Pass-through from Commonwealth of Puerto Rico Families and Child Administration</i>			
Community Services Block Grant	93.569	3,753,904	
<i>Pass-through from Commonwealth of Puerto Rico Governor's Office</i>			
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	975,181	
<i>Pass-through from National Health Institute-WESTAT</i>			
National Health Promotion-WESTAT	93.990	408,718	
<i>Pass-through from Commonwealth of Puerto Rico Department of Education</i>			
Risk Reduction	93.941	181,426	
<i>Pass-through from Harvard College</i>			
Child Health and Human Development Extramural Research	93.865	486,236	
HIV-Infected Children			
Total Department of Health & Human Services (HHS)		48,196,984	-
Corporation for National and Community Service			
<i>Pass-through from Commonwealth of Puerto Rico Department of Health</i>			
Retired and Senior Volunteer Program	94.002	62,396	
Foster Grandparent Program	94.011	379,238	
Total Corporation for National and Community Service		441,634	-

(continued)

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Monetary Expenditures</u>	<u>Non-Monetary Expenditures</u>
Department of Homeland Security			
<i>Pass-through from Commonwealth of Puerto Rico Governor's Office</i>			
Homeland Security Grant Program	97.067	1,646,015	
Total Department of Homeland Security		<u>1,646,015</u>	<u>-</u>
Total expenditures of federal awards		<u>\$ 121,018,927</u>	<u>\$ 2,622,369</u>
			Concluded

See notes to schedule of expenditures of federal awards.

Municipality of San Juan

(Commonwealth of Puerto Rico)

Notes to Schedule of Expenditures of Federal Awards

For the year ended June 30, 2014

1. BASIS OF ACCOUNTING

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

2. SUBRECIPIENTS

During fiscal year 2013-2014, the Municipality disbursed \$12,141,049 to sub-recipients for the realization of healthcare, public service, and housing. The following entities received sub-awards from the Municipality's federal financial assistance programs:

Federal Program	CFDA No	Disbursements
HIV Emergency Relief Project Grants	93.914	\$ 8,031,398
Housing Opportunities for Persons with AIDS	14.241	3,248,420
Community Development Block Grant / Entitlement Grants	14.218	691,765
Community Prosecution Project Safe Neighborhoods	16.609	110,938
Community Sevices Block Grant	93.569	58,528
Total		\$ 12,141,049



Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2014

	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.871 Housing Choice Vouchers	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
111 Cash - Unrestricted	\$ 1,705,039	\$ 689,107	\$ 3,883,786	\$ 6,277,932
112 Cash - Restricted - Modernization and Development	-	-	-	-
113 Cash - Other Restricted	-	-	-	-
114 Cash - Tenant Security Deposits	-	-	-	-
115 Cash - Restricted for Payment of Current Liabilities	-	-	-	-
100 Total Cash	<u>1,705,039</u>	<u>689,107</u>	<u>3,883,786</u>	<u>6,277,932</u>
121 Accounts Receivable - PHA Projects	-	-	-	-
122 Accounts Receivable - HUD Other Projects	-	-	-	-
124 Accounts Receivable - Other Government	-	-	-	-
125 Accounts Receivable - Miscellaneous	718,444	-	-	718,444
126 Accounts Receivable - Tenants	-	-	-	-
126.1 Allowance for Doubtful Accounts -Tenants	-	-	-	-
126.2 Allowance for Doubtful Accounts - Other	-	-	-	-
127 Notes, Loans, & Mortgages Receivable - Current	-	-	-	-
128 Fraud Recovery	-	-	-	-
128.1 Allowance for Doubtful Accounts - Fraud	-	-	-	-
129 Accrued Interest Receivable	-	-	-	-
120 Total Receivables, Net of Allowances for Doubtful Accounts	<u>718,444</u>	<u>-</u>	<u>-</u>	<u>718,444</u>
131 Investments - Unrestricted	-	-	-	-
132 Investments - Restricted	-	-	-	-
135 Investments - Restricted for Payment of Current Liability	-	-	-	-
142 Prepaid Expenses and Other Assets	-	-	-	-
143 Inventories	-	-	-	-
143.1 Allowance for Obsolete Inventories	-	-	-	-
144 Inter Program Due From	-	-	-	-
145 Assets Held for Sale	-	-	-	-
150 Total Current Assets	<u>2,423,483</u>	<u>689,107</u>	<u>3,883,786</u>	<u>6,996,376</u>
161 Land	-	-	-	-
162 Buildings	-	-	-	-
163 Furniture, Equipment & Machinery - Dwellings	-	-	-	-
164 Furniture, Equipment & Machinery - Administration	-	-	-	-
165 Leasehold Improvements	-	-	-	-
166 Accumulated Depreciation	-	-	-	-
167 Construction in Progress	-	-	-	-

(continued)

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2014

	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.871 Housing Choice Vouchers	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
168 Infrastructure	-	-	-	-
160 Total Capital Assets, Net of Accumulated Depreciation	-	-	-	-
171 Notes, Loans and Mortgages Receivable - Non-Current	-	-	-	-
172 Notes, Loans, & Mortgages Receivable - Non Current - Past	-	-	-	-
173 Grants Receivable - Non Current	-	-	-	-
174 Other Assets	-	-	-	-
176 Investments in Joint Ventures	-	-	-	-
180 Total Non-Current Assets	-	-	-	-
190 Total Assets	\$ 2,423,483	\$ 689,107	\$ 3,883,786	\$ 6,996,376
311 Bank Overdraft	-	-	-	-
312 Accounts Payable <= 90 Days	376,514	9,386	23,715	409,615
313 Accounts Payable >90 Days Past Due	-	-	-	-
321 Accrued Wage/Payroll Taxes Payable	-	-	-	-
322 Accrued Compensated Absences - Current Portion	-	-	-	-
324 Accrued Contingency Liability	-	-	-	-
325 Accrued Interest Payable	-	-	-	-
331 Accounts Payable - HUD PHA Programs	-	-	-	-
332 Account Payable - PHA Projects	-	-	-	-
333 Accounts Payable - Other Government	-	-	-	-
341 Tenant Security Deposits	-	-	-	-
342 Deferred Revenues	-	-	-	-
343 Current Portion of Long-term Debt - Capital	-	-	-	-
344 Current Portion of Long-term Debt - Operating Borrowings	-	-	-	-
345 Other Current Liabilities	1,662	483,748	3,109,470	3,594,880
346 Accrued Liabilities - Other	-	-	-	-
347 Inter Program - Due To	-	-	-	-
348 Loan Liability - Current	-	-	-	-
310 Total Current Liabilities	378,176	493,134	3,133,185	4,004,495
351 Long-term Debt, Net of Current - Capital Projects/Mortgage	-	-	-	-
352 Long-term Debt, Net of Current - Operating Borrowings	-	-	-	-
353 Non-current Liabilities - Other	-	-	-	-
354 Accrued Compensated Absences - Non Current	-	-	-	-
355 Loan Liability - Non Current	-	-	-	-
356 FASB 5 Liabilities	-	-	-	-
357 Accrued Pension and OPEB Liabilities	-	-	-	-
350 Total Non-Current Liabilities	-	-	-	-
300 Total Liabilities	378,176	493,134	3,133,185	4,004,495

(continued)

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2014

	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.871 Housing Choice Vouchers	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
508.1 Invested In Capital Assets, Net of Related Debt	-	-	-	-
511.1 Restricted Net Assets	2,045,307	195,973	750,601	2,991,881
512.1 Unrestricted Net Assets	-	-	-	-
513 Total Equity/Net Assets	<u>2,045,307</u>	<u>195,973</u>	<u>750,601</u>	<u>2,991,881</u>
600 Total Liabilities and Equity/Net Assets	<u>\$ 2,423,483</u>	<u>\$ 689,107</u>	<u>\$ 3,883,786</u>	<u>\$ 6,996,376</u>

(continued)

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2014

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
70300 Net Tenant Rental Revenue	\$ -	\$ -	\$ 3,310,625	\$ 3,310,625
70400 Tenant Revenue - Other	-	-	-	-
70500 Total Tenant Revenue	-	-	3,310,625	3,310,625
70600 HUD PHA Operating Grants	21,720,165	938,015	261,631	22,919,811
70610 Capital Grants	-	-	-	-
70710 Management Fee	-	-	-	-
70720 Asset Management Fee	-	-	-	-
70730 Book Keeping Fee	-	-	-	-
70740 Front Line Service Fee	-	-	-	-
70750 Other Fees	-	-	-	-
70700 Total Fee Revenue	-	-	-	-
70800 Other Government Grants	-	-	-	-
71100 Investment Income - Unrestricted	3,799	-	750	4,549
71200 Mortgage Interest Income	-	-	-	-
71300 Proceeds from Disposition of Assets Held for Sale	-	-	-	-
71310 Cost of Sale of Assets	-	-	-	-
71400 Fraud Recovery	52,075	-	-	52,075
71500 Other Revenue	-	-	-	-
71600 Gain or Loss on Sale of Capital Assets	-	-	-	-
72000 Investment Income - Restricted	-	-	-	-
70000 Total Revenue	21,776,039	938,015	3,573,006	26,287,060
91100 Administrative Salaries	1,242,685	48,220	140,730	1,431,635
91200 Auditing Fees	25,000	-	-	25,000
91300 Management Fee	-	-	-	-
91310 Book-keeping Fee	-	-	-	-
91400 Advertising and Marketing	-	-	-	-
91500 Employee Benefit contributions - Administrative	177,652	7,679	17,226	202,557
91600 Office Expenses	3,056	-	-	3,056
91700 Legal Expense	-	-	-	-
91800 Travel	-	-	-	-
91810 Allocated Overhead	-	-	-	-
91900 Other	251,225	58,502	105,050	414,777
91000 Total Operating - Administrative	1,699,618	114,401	263,006	2,077,025

(continued)

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2014

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
92000 Asset Management Fee	-	-	-	-
92100 Tenant Services - Salaries	-	-	-	-
92200 Relocation Costs	-	-	-	-
92300 Employee Benefit Contributions - Tenant Services	-	-	-	-
92400 Tenant Services - Other	-	-	-	-
92500 Total Tenant Services	-	-	-	-
93100 Water	-	-	-	-
93200 Electricity	15,369	8,323	16,072	39,764
93300 Gas	-	-	-	-
93400 Fuel	-	-	-	-
93500 Labor	-	-	-	-
93600 Sewer	-	-	-	-
93700 Employee Benefit Contributions - Utilities	-	-	-	-
93800 Other Utilities Expense	6,670	1,599	3,483	11,752
93000 Total Utilities	22,039	9,922	19,555	51,516
94100 Ordinary Maintenance and Operations - Labor	-	-	-	-
94200 Ordinary Maintenance and Operations - Materials and	-	-	-	-
94300 Ordinary Maintenance and Operations Contracts	-	-	-	-
94500 Employee Benefit Contributions - Ordinary Maintenance	-	-	-	-
94000 Total Maintenance	-	-	-	-
95100 Protective Services - Labor	-	-	-	-
95200 Protective Services - Other Contract Costs	-	-	-	-
95300 Protective Services - Other	-	-	-	-
95500 Employee Benefit Contributions - Protective Services	-	-	-	-
95000 Total Protective Services	-	-	-	-
96110 Property Insurance	-	-	-	-
96120 Liability Insurance	-	-	-	-
96130 Workmen's Compensation	45,088	1,828	4,165	51,081
96140 All Other Insurance	97,036	4,168	12,825	114,029
96100 Total insurance Premiums	142,124	5,996	16,990	165,110
96200 Other General Expenses	-	-	-	-
96210 Compensated Absences	26,340	-	-	26,340
96300 Payments in Lieu of Taxes	-	-	-	-
96400 Bad debt - Tenant Rents	-	-	-	-
96500 Bad debt - Mortgages	-	-	-	-
96600 Bad debt - Other	-	-	-	-
96800 Severance Expense	-	-	-	-
96000 Total Other General Expenses	26,340	-	-	26,340

(continued)

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2014

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.856 Lower Income Housing Assistance Program Section 8 Moderate	Total
96710 Interest of Mortgage (or Bonds) Payable	-	-	-	-
96720 Interest on Notes Payable (Short and Long Term)	-	-	-	-
96730 Amortization of Bond Issue Costs	-	-	-	-
96700 Total Interest Expense and Amortization Cost	-	-	-	-
96900 Total Operating Expenses	1,890,121	130,319	299,551	2,319,991
97000 Excess of Operating Revenue over Operating Expenses	19,885,918	807,696	3,273,455	23,967,069
97100 Extraordinary Maintenance	-	-	-	-
97200 Casualty Losses - Non-capitalized	-	-	-	-
97300 Housing Assistance Payments	20,523,396	652,081	3,253,076	24,428,553
97350 HAP Portability-In	-	-	-	-
97400 Depreciation Expense	-	-	-	-
97500 Fraud Losses	-	-	-	-
97600 Capital Outlays - Governmental Funds	-	-	-	-
97700 Debt Principal Payment - Governmental Funds	-	-	-	-
97800 Dwelling Units Rent Expense	-	-	-	-
90000 Total Expenses	22,413,517	782,400	3,552,627	26,748,544
10010 Operating Transfer In	-	-	-	-
10020 Operating transfer Out	-	-	-	-
10030 Operating Transfers from/to Primary Government	-	-	-	-
10040 Operating Transfers from/to Component Unit	-	-	-	-
10050 Proceeds from Notes, Loans and Bonds	-	-	-	-
10060 Proceeds from Property Sales	-	-	-	-
10070 Extraordinary Items, Net Gain/Loss	-	-	-	-
10080 Special Items (Net Gain/Loss)	-	-	-	-
10091 Inter Project Excess Cash Transfer In	-	-	-	-
10092 Inter Project Excess Cash Transfer Out	-	-	-	-
10093 Transfers between Program and Project - In	-	-	-	-
10094 Transfers between Project and Program - Out	-	-	-	-
10100 Total Other financing Sources (Uses)	-	-	-	-
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	(637,478)	155,615	20,379	(461,484)
11020 Required Annual Debt Principal Payments	-	-	-	-
11030 Beginning Equity	1,899,776	(28,970)	227,626	2,098,432
11040 Prior Period Adjustments, Equity Transfers and Correction	783,009	69,248	502,596	1,354,853
11050 Changes in Compensated Absence Balance	-	-	-	-
11060 Changes in Contingent Liability Balance	-	-	-	-
11070 Changes in Unrecognized Pension Transition Liability	-	-	-	-
11080 Changes in Special Term/Severance Benefits Liability	-	-	-	-
11090 Changes in Allowance for Doubtful Accounts - Dwelling	-	-	-	-
11100 Changes in Allowance for Doubtful Accounts - Other	-	-	-	-
11170 Administrative Fee Equity	468,873	-	-	468,873

(continued)

Municipality of San Juan
(Commonwealth of Puerto Rico)
PHA Number RQ006
Housing Financial Data Schedule
For the year ended June 30, 2014

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.856 Lower Income Housing Assistance Program Section 8 Moderate	Total
11180 Housing Assistance Payments Equity	1,576,434	-	-	1,576,434
11190 Unit Months Available	55,632	2,064	5,712	63,408
11210 Number of Unit Months Leased	37,844	1,958	5,516	45,318
11270 Excess Cash	-	-	-	-
11610 Land Purchases	-	-	-	-
11620 Building Purchases	-	-	-	-
11630 Furniture & Equipment - Dwelling Purchases	-	-	-	-
11640 Furniture & Equipment - Administrative Purchases	-	-	-	-
11650 Leasehold Improvements Purchases	-	-	-	-
11660 Infrastructure Purchases	-	-	-	-
13510 CFFP Debt Service Payments	-	-	-	-
13901 Replacement Housing Factor Funds	-	-	-	-
	4,821,568	44,300	741,450	5,607,318
				(concluded)

See notes to housing financial data schedule.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

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



REPORTS REQUIRED UNDER CIRCULAR A-133

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Municipality of San Juan, Capital City of Puerto Rico, (the Municipality) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Municipality's basic financial statements and have issued our report thereon dated December 29, 2014.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2014-II-1 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with

governance. We consider the deficiencies 2014-II-2 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2014-II-3 through 2014-II-5.

Municipality’s Response to Findings

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

Purpose of this Report

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

December 29, 2014
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-
133**

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

Report on Compliance for Each Major Federal Program

We have audited the Municipality of San Juan, Capital City of Puerto Rico (the Municipality), compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2014. Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion

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

Federal Awarding Agency	Federal Program	Compliance Requirement	Finding No.
US Department of Education	84.063 Federal Pell Grant	Cash Management	2014-001
US Department of Health and Human Services	93.600 Head Start	Cash Management	2014-001
US Department of Labor	17.258, 17.259, 17.260 Workforce Investment Act Cluster	Cash Management	2014-001
US Department of Housing and Urban Development	14.218 Community Development Block Grants	Cash Management	2014-001
US Department of Health and Human Services	93.914 HIV Emergency Relief	Cash Management	2014-001
US Department of Health and Human Services	14.241 Housing Opportunities for Persons with Aids	Cash Management	2014-001
US Department of Housing and Urban Development	14.856 Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	Cash Management	2014-001
US Department of Housing and Urban Development	14.239 Home Investment Partnership Program	Cash Management	2014-001
US Department of Health and Human Services	93.569 Community Services Block Grant	Cash Management	2014-001
US Department of Housing and Urban Development	14.218 Community Development Block Grant	Reporting	2014-004
US Department of Health and Human Services	93.914 HIV Emergency Relief	Reporting	2014-004
US Department of Housing and Urban Development	14.241 Housing Opportunities for Persons with Aids	Reporting	2014-004
US Department of Health and Human Services	93.569 Community Services Block Grant	Reporting	2014-004
US Department of Health and Human Services	93.914 HIV Emergency Relief	Program Income	2014-006
US Department of Health and Human Services	93.914 HIV Emergency Relief	Sub-Recipient Monitoring	2014-007
US Department of Housing and Urban Development	14.239 Home Investment Partnership	Earmarking	2014-017

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of the major programs described in the preceding paragraph for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-003, 2014-005, 2014-008 to 2014-016. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-002, 2014-004, 2014-006, 2014-007 and 2014-017 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-003, 2014-005, 2014-008 to 2014-016 to be significant deficiencies.

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

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

HLB Pariss PSC

December 29, 2014

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License No. 88 Exp. December 1, 2017.



Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Section 1- Summary of Auditor's Results

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting	
1. Material weakness identified?	Yes
2. Significant deficiencies that are not to be considered material weakness?	No
3. Noncompliance material to financial statement noted?	Yes

Federal Awards

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

Identification of Major Programs:

<i>Program of Cluster</i>	<i>CFDA Number</i>
• Section 8 Lower Income Housing Assistance Program- Section 8 Moderate Rehabilitation	14.856
• Community Development Block Grant / Entitlement Grants Cluster	14.218/14.253
• Housing Opportunities for Persons with AIDS	14.241
• Section 8 Housing Choice Voucher	14.871
• Head Start Administration for Youth and Children	93.600
• HIV Emergency Relief Project Grant	93.914
• Workforce Investment Act Cluster	17.258, 17.259, 17.260
• Community Service Block Grant	93.569
• Federal Pell Grant Program	84.063
• Section 231 Direct Loan	14.138
Dollar threshold used to distinguish between Type A and Type B programs	\$3,000,000
Auditee qualified as a low-risk auditee?	No

Section 2 – Financial Statement Findings

Finding No. 2014-II-01 Inadequate Accounting Records and Closing Procedures – Material weakness

Criteria

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

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

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

Condition

The Municipality has made modifications to its accounting procedures. However, the following matters were noted during out audit that still need to be addressed.

- The following matters noted affect the overall financial statement preparation and presentation. Therefore, these are considered to have a significant and material effect on possible errors or irregularities that the Municipality may not be able to prevent or detect on a timely basis because of the pervasiveness of each of these matters. The Municipality:
 - Does not close its accounting records to prepare financial reports in accordance with GAAP on a monthly basis for all of its operations. Current monthly procedures are carried out on a modified budgetary basis and does not provide for an analysis of the overall financial position and results of operations of each of the Municipality's funds and accounts.
 - Does not analyze and evaluate accounts balances and transactions on a monthly basis to ensure that these are free from errors or irregularities. The analysis of most account balances and transactions is performed once a year as part of the year-end closing process.
 - Does not reconcile periodically and agree amounts in the Municipality's general ledger with the corresponding subsidiary of taxes receivable and accounts payable. The reconciliation of the accounts payable subsidiary with the general ledger is done as part of the year-end closing process.
 - Does not have formal monthly or periodical cut-off procedures to ensure that all transactions are recorded in the corresponding accounting period.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

- Does not prepare budget vs. actual financial reports periodically to provide information regarding the year-to-date results of the Municipality's revenue and expenditure transactions. Instead, the Municipality monitors its finances through monthly cash flow reports.
- Has a general ledger and related trial balance accounts that appears to be unnecessarily detailed for an effective and efficient accounting and management.
- Does not have an integrated financial reporting structure to allow for the effective and efficient preparation of the Municipality's basic financial statements including the conversion process for the government-wide financial statements. The 2014 basic financial statements and related conversion was completed after a significant gathering of formal and informal documents.
- ***Matters Related to Taxes, Loans and Other Receivables:*** The Municipality:
 - Does not have an updated and accurate municipal license tax subsidiary ledger.
 - Does not have effective and efficient collection and follow up initiatives to collect amounts due from loans and other receivables, as required by Article 8.003 of the Autonomous Municipalities Law.
- ***Matters related to capital assets:*** The Municipality:
 - Does not have a capital assets subsidiary ledger integrated within the accounting system. Capital assets listings are maintained in excel worksheets. The final amounts presented in the Municipality's basic financial statements resulted after significant audit and management adjustments and corrections.
 - Does not carry out a periodical reconciliation of the amounts recorded as capital asset acquisition expenditures with the additions recorded in capital assets accounts. The reconciliation was done as part of the year-end closing process.
 - For 2014, the Municipality carried out a project to reconstruct a subsidiary of assets acquired with federal funds by reviewing all purchases in excess of \$5,000 for the past 5 years. Selected mayor items were traced back to physical inventories carried out at the federal program level. Although progress has been made to account for all assets acquired with federal funds, the Municipality should continue to refine its procedures to ensure that all assets are adequately accounted for.
 - Does not perform a capital assets inventory every two years. Therefore, there is the possibility that the actual capital assets on hand does not agree with the current list of capital assets. Accordingly, the Municipality may not prevent or detect on a timely basis the unauthorized use or disposition of its capital assets.
- ***Matters Related to Accounts Payable:*** The Municipality:
 - Does not periodically reconcile the accounts payable subsidiary with the general ledger. The Municipality makes significant year-end efforts to identify all unrecorded liabilities.
 - Have few accounts payable and accrual accounts that carry debit balances, indicating the possibility of errors or over payments.
 - Does not periodically reconcile the accounts payable with all its suppliers and vendors. The Municipality reconcile vendor accounts on a case-by-case basis.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

- ***Matters Related to Debt:*** The Municipality:
 - Does not account for long term debt balances in its accounting system on a timely basis nor it has a subsidiary ledger that provides a detail of all its long-term obligations. The detail of long term debt is prepared as part of the year-end closing process and kept in electronic worksheets. The long-term debt presented in the government-wide basic financial statements is assembled from numerous external documents and resources.
 - Does not reconcile periodically the debt service payments with the amortization table. During the year ended June 30, 2014 we noted that the amount withheld by CRIM for the payment of interest was approximately \$1.3 million more than the amount per amortization tables provided by GDB.

- ***Matters Related to Interfund Balances and Transactions:*** The Municipality
 - Does not periodically analyze de adequacy and reasonability of balances due from and to different funds to determine whether the debtor fund is able to repay the amount due. As part of the year-end closing process, an analysis was performed over the interfund balances.

- ***Matters Related to Accrued Vacations:*** The Municipality:
 - The Municipality's payroll process and accrued compensated absences have material weaknesses in its operations and administration. Considering that the Municipality has approximately 6,800 to 7,200 employees, the following matters noted are significant weaknesses on internal control and compliance:
 - Accrued compensated absences module of the payroll system is not used. Instead, the Municipality maintains compensated absences balances informally in excel worksheets
 - The aforementioned worksheets are not subjected to supervisory review and validation.

Cause

The Municipality's financial accounting and reporting structure is not designed to gather the necessary information efficiently and effectively to permit:

- Periodic analysis of transactions and balances
- Periodic reconciliation among trial balances and subsidiary ledgers

Effect

The overall effect is that the Municipality's financial information was not complete or accurate to allow management to make informed and timely decisions. Errors or irregularities may occur and not be detected on a timely basis. Critical financial information may only be available at year-end, after extended analysis of accounts and transactions. In addition, management posted a significant number of adjustments and corrections in order to correct the amounts presented in its current year financial statements.

Recommendation

The Municipality should continue its efforts to review and revise its current accounting and financial reporting structure. This includes, among others, the evaluation of the current accounting and financial reporting software to ensure it meets the necessary standards, establishment or revision of policies and procedures, establishment of periodic reconciliation and analysis processes and procedures, additional

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training of all personnel related to accounting and financial reporting responsibilities, and establishing a financial reporting unit. This financial reporting unit should be responsible for overseeing the overall deployment of the project to ensure that goals are met effectively.

Views of responsible officials

Management agrees with the finding. Significant changes were made to strengthen the 2014 year-end closing process including engaging outside accounting advisors to assist the Municipality, development of a detailed year-end work plan and timetable and periodic year-end closing meetings. These changes will be repeated in the 2015 year-end closing process. As a result of the 2014 audit, we have identified various areas that we need to address to continue to shorten the year-end closing process and strengthen controls over certain financial accounting balances and transactions. New procedures will be added to the detailed year-end work plan to address these areas of concern. In addition, we still need to continue to improve on our monthly accounting processes and procedures.

Responsible official: Director of Finance

Estimated completion date: September 30, 2015

Finding No. 2014-II-2 Deficiency in Internal Controls over Personnel Files

Criteria

Laws and regulations require that personnel files should be kept current and should include all required documentation.

Condition

During our audit we observed that personnel files are not being kept current and in some instances were incomplete. In certain instances, we noted that the following information was not included in the files.

- Forms 499-R4, Employees Withholding Allowance Certificate, I-9 Employment Eligibility Verification
- Authorization for direct deposit. In order to comply with our requirement management obtained new direct deposits authorization since the originals could not be located.
- In certain instances, the Change Report (Form SP2) was not updated to reflect the last compensation rate approved to the employees

Cause

Controls and procedures that require that employee files be current are not carried out consistently and there is no proper supervision that require compliance with established policy.

Effect

By not keeping personnel files current, the Municipality is exposed to penalties in case of legal claims. In addition the Municipality could be not in compliance with applicable laws and regulations.

Recommendation

Procedures should be implemented to assure that all personnel files are current and complete in accordance with laws and regulations.

View of responsible officials

Management agrees with the finding. Safeguard controls over the custody of all supporting documents will be emphasized through formal communication to all concerning parties.

Responsible official: Director of Finance

Estimated completion date: June 30, 2015

Finding No. 2014-II-3 Business Continuity

Condition

A contingency plan to restore operations in case of unforeseen interruptions has not been updated and tested.

Criteria

A contingency plan, including an alternate processing site must be fully functional, tested, and ready for activation at a moment's notice.

Cause

The Municipality's Disaster Recovery Plan is dated to 2001.

Effect

Critical business functions may not be resumed in a timely and efficient manner in case that an emergency or disaster renders the computer center inoperative.

Recommendation

The Municipality should update or develop a Business Continuity Plan for its information technology functions, including its alternate processing facilities. In order to provide full assurance that the alternate processing facility will work effectively, the plan must be tested by simulating all procedures to be performed during a real emergency. Currently, there is a contract with Netwave to provide services for the Oracle applications, therefore those applications may be restored in the event of emergency.

The contingency plan must include not only information systems, but agency-wide disaster recovery procedures. Procedures should include manual processing of transactions to ensure continuity of operations until computer processing is restored. These manual procedures should also be simulated on a periodic basis to assure that all current employees are fully trained to perform their duties in case of a disaster, or in any case of prolonged system unavailability.

Procedures should be developed to periodically test the plan by simulating an emergency and to perform any necessary updates for changing business conditions and computer environments on a regular basis.

View of responsible officials

We do not concur with the finding. Copy of the Municipality's *Backup and Recovery Procedures Manual*, which has been updated through May 22, 2014 and is available for inspection. The contingency recovery period of the Municipality has been estimated between two (2) and four (4) hours after any unforeseen contingent event. Recovery data held at the designated alternate site in the Netware facilities is updated on an hourly basis from the primary to the secondary sites pursuant to the data backup and recovery itinerary. These procedures have been successfully tested on the new Alternate site on November 2014.

Responsible official: Director of Management and Budget

Estimated completion date: Not applicable

Finding No. 2014-II-4 Internal Audit

Condition

The Municipality's information technology (IT) operations may not conform with generally accepted internal controls.

Criteria

Internal controls in IT operations are critical to mitigating risks of financial misreporting, asset protection, and efficient operations.

Cause

Internal audit has a limited involvement in Information Systems internal controls.

Effect

Given the use of information systems throughout its operations, internal controls in the Information Systems functions are a very critical part of the organization. Since there is little involvement by the Internal audit function, compliance with policies and procedures may not be monitored appropriately, and recommendations for improvement may not be provided by an independent source.

Recommendation

MSJ should increase the level of involvement of the internal control expertise typically available from an internal audit function (or outsourced) to perform regular reviews of the following areas:

- Compliance with policies.
- System development life cycles of information systems.
- Information System Security monitoring
- Contingency Planning
- IT Operations

View of responsible officials

The Internal Audit Office plans to conduct an audit over certain areas of the Information Systems' Office's operations and procedures.

Responsible official: Director of Internal Audit

Estimated completion date: September 30, 2015

Finding 2014-II-5 Security Monitoring

Condition

Information security monitoring functions are not performed effectively.

Criteria

Security Officer functions should include the use of security monitoring software to complement security controls and assure they are effective and efficient. The Municipality's strategic plan establishes an Information Security Officer as the position responsible for Information Security and control and for developing a security plan.

Cause

Although the Municipality's strategic plan establishes an Information Security Officer as the position responsible for Information Security and control, the Municipality currently does not have a Security Officer position and has not implemented an application and operating system security monitoring software. The Municipality's systems have logs which record the system activity that can be available for review, but this information is available only for an after the fact searching in the event of an investigation.

Effect

Without regular system security monitoring reviews, the Municipality may not effectively detect important information security activity such as UserID creation and deletion, changes in privileges, security violations, system use at unusual hours, login attempts from unauthorized terminals, etc.

Recommendation

The Municipality should have a full-time information system security officer and implement security monitoring software, in order for the officer to monitor security violations, access to critical files, and the activity of security administrators.

Security monitoring reports can indicate instances of unauthorized or attempted unauthorized access, which should be subject to a review, investigation, and corrective or disciplinary action, as appropriate. Reports should be tailored to specific user activity (such as activity with security administrator ids, critical file access, program changes, and security policy changes) or specific event related activity (time-specific activity and recurrent password violations), therefore providing useful and manageable reports that a security officer would be able to review regularly without having to sort through numerous line entries on logs.

Security monitoring is best performed by application owners, internal auditors or any independent party in order to provide assurance for information technology. Super Admin IDs are very powerful tools that should be monitored regularly by independent personnel.

View of responsible officials

We do not concur with the finding. The Municipality has adopted sound and effective security monitoring procedures including, but not limited to, strict policies and procedures over network access controls which have been documented in the Physical and Logical Access Controls and Procedures Manual, approved in May 2014. Those procedures also provide strict monitoring controls regarding the use of the broad base of municipal information systems. Those policies and procedures provide guidance on the systems' navigation and users' privileges. Specifically regarding the municipal financial system, a

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double user password validation is required and the user privileges are assigned in conformity with the user's approved specific duties.

In the modern Era, security controls are established through usage, access and monitoring policies over the network and existing vertical applications. Each specialized area has the adequate human resources in charge of the day-to-day implementation of those security policies established.

The Municipality has two (2) network administrators, which among their responsibilities; establish group policy controls for users, computers and servers, which allow the simplification of duties, administration and implementation on a centralized way to maximize all security control aspects of the Municipality.

Responsible Official: Director of Management and Budget
Estimated Completion Date: Not applicable

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

<u>Finding No. 2014-001</u>	<u>Program Name</u>
CFDA No.: 93.600	Head Start
CFDA No.: 84.063	Federal Pell Grant
CFDA No.: 17.258, 17.259, 17.260	Workforce Investment Act Cluster
CFDA No.: 93.569	Community Services Block Grant
CFDA No.: 93.914	HIV Emergency Relief
CFDA No.: 14.241	Housing Opportunities for Persons with Aids
CFDA No: 14.856	Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation
CFDA No: 14.239	Home Investments Partnership
CFDA No: 14.218	Community Development Block Grants

Compliance over Cash Management – Material Weakness

Criteria

Per 24 CFR 85.20, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement and establish similar procedures for subrecipients.

Condition

We noted that in certain instances the Municipality did not minimize the time lapse between the drawdown and receipt of the check by the contractor or the supplier. The exceptions noted are summarized by Federal program as follows:

CFDA No.	Program Name	Total Sample	Exceptions Noted	Days Lapse
93.600	Head Start	46 items	12 items	7 to 26 days
84.063	Federal Pell Grant Program	40 items	30 item	8 to 20 days
17.258, 17.259 and 17.260	Workforce Investment Act Cluster	14 items	8 items	6 to 22 days
93.569	Community Services Block Grant	3 Items	1 Item	25 days
94.914	HIV Emergency Relief	47 Items	17 Items	5 to 22 days
14.218	Community Development Block Grants	27 items	25 Items	4 to 27 days
14.241	Housing Opportunities for Persons with AIDS	38 Items	4 items	11 to 25 days
14.239	Home Investments Partnership Program	22 Items	18 Items	5 to 33 days
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	Compared all deposit per bank statement with related withdrawals		7 to 10 days

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Cause

Payment procedures utilized by the Municipality do not allow for precision in determining the time lag between a request of Federal funds and the payment being made. The current practice is that the Municipality prepares the check and makes it available for the supplier or the contractor so that they can personally pick up the check in the Municipality's premises. The time lag presented above could be the result of late pick up by the supplier or contractor. However we were unable to validate this situation.

Effect

Failure to drawdown Federal funds on an as-needed basis could result in an interest liability being incurred.

Questioned Costs

None

Recommendation

We recommend the Municipality to release the checks by immediately upon issuance and contracting the supplier for immediate pickup, or sending the payment through mail.

Views of responsible officials

We concur with the finding and the independent auditors' recommendation. As an immediate corrective action, the Municipality will establish the necessary policies and procedures to drawdown federal funds as closely as possible to the actual disbursement dates, and checks will be sent by mail to the corresponding payees within the allowable period of time.

Responsible Official: Federal Program Manager

Estimated Completion Date: June 30, 2015

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Finding No. 2014-002

CFDA No.: 93.569 Community Services Block Grant

Compliance over Cash Management – Material Weakness

Criteria

Per 24 CFR 84.22(b)2, cash advances to a recipient organization shall be limited to the minimum amount needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization.

Condition

The Municipality is required by the Department of Family of the Commonwealth of Puerto Rico (the Grantee) to request reimbursements at the end of every quarter. We noted that during the quarter ended March 31, 2014 the Municipality requested \$201,462 in excess of the actual expenses incurred in quarter resulting in cash received in excess of actual cash needs. Such excess was deducted from the amount requested in the following quarter.

Cause

The request for reimbursement sent to the Grantee was not reconciled with actual expenses for the quarter as recorded in Municipality Oracle accounting system, to ensure that the amount requested was in compliance with the approved process.

Effect

Failure to drawdown Federal funds on an as-needed basis could result in an interest liability being incurred.

Questioned Costs

None

Recommendation

We recommend the Municipality to enforce the controls over fund request and verify that the request is made for actual expenditures incurred.

Views of responsible officials

We partially concur with the finding and the independent auditors' recommendation. However, the Municipality acknowledges that funding requests exceeded actual program allowable operating costs by only \$189,773 during the quarter ended March 31, 2014. The Municipality adopted an immediate corrective action in the subsequent quarter ended June 30, 2014 by deducting the excess funding requests made in the previous quarter from the allowable funding requests of the later quarter.

The Municipality will also review its current policies and will adopt improved procedures to ensure that all funds are disbursed in accordance with laws and regulations or the terms and conditions of the award.

Responsible Official: Federal Program Manager

Estimated Completion Date: June 30, 2015

Finding No. 2014-003

CFDA No.: 84.063 Federal Pell Grant Program

Significant Deficiency in Internal Control over Compliance – Eligibility

Criteria

A regular student participating in these federal programs must maintain good standing, or satisfactory progress (34 CFR sections 668.16, 668.32, 668.34, 690.75, 675.9, 676.9, 674.9, 685.200, 20 USC 1070h; 42 CFR section 57.306; 42 USC 293a (d)(2))-all award programs- 84.063.

Condition

In a sample of 40 students, we noted one (1) student that received Pell Grant awards although he was not in compliance with the required academic progress.

Cause

A *hold status*, placed in the student accounts to prevent the students to perform any transactions in the University, was changed to a *warning status* in the system to allow the students prepare the academic program and paid the different fees and tuition but the warning not preclude the students to receive Pell Grant.

Effect

Ineligible students received student financial assistance under the program.

Questioned Costs

\$2,000

Recommendation

The Municipality should establish policies and procedures to ensure that students are evaluated properly before the approval or disbursement of Federal assistance.

Views of responsible officials

We concur with the finding and the independent auditor's recommendation. San Juan University College personnel were trained to implement the revised academic progress standards and procedures, as follows:

- Training and guidance was offered to the corresponding staff responsible for the evaluation of the Students' Satisfactory Academic Progress.

The Corrective Action Plan submitted with the Single Audit 2012-13 was implemented in August 2014. Therefore, its application overlapped the start of fall semester 2013-14. As a result of the implementation of the Corrective Action Plan at the beginning of the semester, it turned out that only one student did not meet the Satisfactory Academic Progress. Consequently, the aid granted to that student was reimbursed to the USDE. Two students' academic evaluation processes per year are currently in place to assure compliance and to strengthen the processes of evaluation and granting federal financial aid.

Responsible Official: Federal Program Manager/San Juan University College

Estimated Completion Date: Completed

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Finding No. 2014-004

CFDA No.: 93.569	Community Services Block Grant
CFDA No.: 93.914	HIV Emergency Relief
CFDA No.: 14.241	Housing Opportunities for Persons with AIDS
CFDA No.: 14.218	Community Development Block Grant

Compliance over Transparency Act- Material Weakness

Criteria

The Federal Funding Accountability and Transparency Act (FFTA) require the Office of Management and Budget to maintain a single, searchable website that contains all information on spending associated with Federal awards. In connection with FFATA, prime recipients were required to report subawards starting October 1, 2010 with value exceeding \$25,000 if the prime contract award was \$550,000 or more. Among the items required to be reported are the name of entity receiving the award, amount of the award, funding agency, CFDA program number and program source

Condition

During our audit of the major federal awards programs indicated above, we noted the Municipality did not complete the subaward reporting requirement under the FFATA.

Cause

The Municipality does not have procedures in place to ensure they meet the reporting requirements of FFATA.

Effect

The Municipality is not in compliance with the requirements of FFATA and OMB Circular A-133.

Questioned Costs

None

Recommendation

We recommend the reporting requirements be adhered to and the Municipality files the reports for the above programs as soon as possible.

Views of responsible officials

We concur with the finding and the independent auditors' recommendation. As an immediate corrective action, the Municipality will file the required data of all prime contract sub awards in excess of \$550,000 made from October 1, 2010 through June 30, 2014 in the corresponding FFATA system promulgated by the Office of Management and Budget.

Responsible Official: Federal Program Manager

Estimated Completion Date: June 30, 2015

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Finding No. 2014-005

CFDA No.: 93.914

HIV Emergency Relief

Compliance over Eligibility of Individuals – Significant Deficiency

Criteria

Program laws and regulations require that patients of program be recertified every six months. The primary purpose of the recertification process is to ensure that an individual's residency, income and insurance statuses continue to meet the grantee eligibility requirements.

Condition

In a sample of 40 patients, in 31 cases we noted based on the information in each of the patient files that the recertification were made after the six (6) months period. In addition in three (3) cases in the same sample evidence about the patient eligibility was not available for our examination.

Cause

The Municipality performs the recertification on an annual basis instead of the six month period.

Effect

The Municipality is not in compliance with program eligibility requirements as per laws and regulations

Questioned Costs

\$7,727

Recommendation

The Municipality should establish policies and procedures to ensure that patients are recertified every six (6) months in accordance with program laws and regulations.

Views of responsible officials

We concur with the finding and the independent auditors' recommendation. As an immediate corrective action, the Municipality will carry out recertification procedures on every program participant every six months. In addition, strict control policies over participant files will be implemented to ensure all required program eligibility documentation is properly safeguarded and available at all times.

Responsible Official: Federal Program Manager

Estimated Completion Date: June 30, 2015

Finding No. 2014-006

CFDA No.: 93.914

HIV Emergency Relief

Compliance over Program Income- Material Weakness

Criteria

42 USC 300ff-15(e)(1) and (2) requires providers to impose charges if the patient level of income falls within certain levels of the poverty level table as published Federal Register. Aggregate charges may be imposed if applicable. The term “aggregate” applies to the annual charges imposed for all without regard to whether they are characterized as enrollment fees, premiums, deductibles, cost sharing, co-payments, coinsurance, or other charges for services (42 USC 300ff-15(e)(3)).

Condition

During our test of compliance with program income compliance requirement we noted the following:

- The Municipality was comparing the patient level of income with the 2012 poverty table instead of using the 2013 poverty level table. A poverty table is published every year.
- In 19 cases in a sample of 40 patients we noted that the Municipality was inconsistent in the treatment of similar government financial aid included in the determination of the patient income level. In certain cases foods stamp federal assistance was taken into consideration to determine the patient income level while in other cases this assistance was not taken into consideration.
- In 3 cases in a sample of 40 patients we noted that when comparing the patient income level with the current poverty level table, permissible aggregate charges should have been charged to these patients. The Municipality provided to us a manual card which indicates the patient payment history as proof that charges were made to the patient. However no program income was reported in the program financial reports for the fiscal year ended June 30, 2014.

Cause

Lack of detailed uniform policies and procedures for proper determination and recording of program income.

Effect

The Municipality is not in compliance with the program income compliance requirement as required by laws and regulations.

Questioned Costs

None

Recommendation

The Municipality should establish policies and procedures that ensure compliance with program income compliance requirements. Among others these policies and procedures should require that updated poverty tables be used at all time, detail the information that should be taken into consideration when determining patient level of income and the identification of patient charges to be reported and recorded as program income.

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Views of responsible officials

We concur with the finding and the independent auditors' recommendation. The Municipality will adopt the necessary policies and procedures to ensure updated poverty tables are always used in evaluating patient levels of income for applicability of reportable program charges.

Responsible Official: Federal Program Manager

Estimated Completion Date: June 30, 2015

Finding No. 2014-007

CFDA No.: 93.914

HIV Emergency Relief

Compliance over Sub-recipient monitoring – Material Weakness

Criteria

The Municipality, as a pass through entity of program funds, is responsible for:

- Determining sub recipient eligibility
- At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency)
- During the award monitoring the subrecipient’s use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient’s audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition

During our test of compliance with the requirements of sub-recipient monitoring we noted the following:

- The Municipality engages a certified public accounting firm to perform agreed-upon procedures on its subrecipients as part of its subrecipient monitoring procedures. The Municipality is not contracting the agreed-upon procedures on a timely basis to allow for the reports to be issued promptly. At the time of our fieldwork, the report for fiscal year 2013-2014 had not been issued.
- The Municipality performs site visits without establishing a risk assessment process to properly monitor its subrecipients based on risk evaluation of previous performance. In a sample of six items, in four cases we noted that no programmatic monitoring was performed. Personnel from the Municipality explained to us that sub-recipients to be monitored are selected randomly. However the risk assessment process to select the sub-recipient to be monitored is not documented.
- In a sample of 6 sub-recipients that expended more than \$500,000 of federal awards in all cases we noted that the last single audit report available for our examination was not for the most current period. Current single audit reports were requested and obtained from the sub-recipients following our request.
- After we obtained the single audit reports as explained above we noted that in one case the sub-recipient’s auditor report that program funds were used to finance costs of other federal awards. In other two cases the external auditors’ report that the sub-recipients don’t have proper accounting systems. Since the Municipality did not have current single audit reports no action has been taken on these findings.

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- In a sample of 6 sub-recipients to review the programmatic monitoring reports we noted that in two cases the monitoring reports indicates findings. The audits were performed during November and December 2013. However as of the date our audit procedures no action plan on such findings was available for our examination.
- In the programmatic monitoring performed in November 2013 explained above the findings were reported to the sub-recipient during August 2014 after we informed the Municipality of the findings in the report.
- Although personnel from the Municipality represented to us that they have regular contacts and visits to the sub-recipients such activities are not documented in monitoring files.

Cause

Policies and procedures related to sub-recipients monitoring activities are not properly implemented. In addition the Municipality understands that the review and discussion of the agreed-upon procedure engagement performed by an external accounting firm and the preapproval of all subrecipient expenses is sufficient to meet the monitoring activities requirements.

Effect

The Municipality is not in compliance with sub-recipient monitoring compliance requirement. There could be situations in which the sub-recipient is not expending funds in accordance with laws and regulations and not detected by the Municipality in a timely manner.

Questioned costs

None.

Recommendation

The Municipality should document a formal sub-recipient monitoring process. Monitoring activities are a continuing process. The scope of such activities should be established on an annual risk analysis and documented in sub-recipient monitoring plan. Some of the matters to be considered in the monitoring risk analysis are program complexity, amount of the award, and sub-recipient risk. Regular monitoring activities such as reports, site visits and regular contacts should be documented. Single audits should be requested when applicable action should be taken on any finding affecting the program.

In addition, the Municipality should coordinate the performance of the agreed-upon procedures in a way that permits the issuance of the reports on a timely basis thus allowing the Municipality to be more effective in its monitoring activities.

Views of responsible officials

We partially concur with the finding and disagree with the severity of the finding. The Municipality engages a certified public accounting firm to carry out agreed-upon procedures over all our subrecipients addressing certain compliance requirements including single audit reporting, property and equipment management, allowable costs, eligibility among other procedures. As part of such procedures, the accounting firm obtains the most recent single audit reports, reviews the reports and findings as well as the subrecipients' corrective action plan. The fieldwork of such agreed-upon procedures pertaining to fiscal year 2013-2014 have been completed, findings to the subrecipients have been communicated, responses have been received and we are currently waiting to complete exit meetings for final issuance of the report in the upcoming weeks. In addition, all disbursements to subrecipients are preaudited before issuance of funds by reviewing supporting documents that evidence the expense being claimed, annual

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trainings are performed for all subrecipients and site visits are made to selected subrecipients throughout the year.

The Municipality will emphasize to all of its subrecipients through formal communication, the need for compliance with timely submission of the single audit reports. In addition, we will plan and coordinate with our engaged certified public accounting firm to accelerate the completion of our limited-scope audits for the 2015 audit cycle. In addition, we will improve documentation in files in support for other monitoring procedures carried out during the year.

Responsible Official: Federal Program Manager
Estimated Completion Date: June 30, 2015

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Finding No. 2014-008

CFDA No.: 14.241

Housing Opportunities for Persons with AIDS

Compliance over Eligibility – Significant Deficiency

Criteria

Program participants should be recertified every year to determine continued eligibility.

Condition

In a sample of 40 participants we noted that in 2 cases the participants were not recertified during the year in accordance with laws and regulations.

Cause

Internal control policies and procedures with respect to this compliance requirement ate not properly implemented.

Effect

There could be participants receiving benefits that are not eligible for such benefits under program laws and regulations.

Questioned costs

\$4,342

Recommendation

All program participants should be recertified every year to determine continued eligibility under program laws and regulations.

Views of responsible officials

We do not concur with this finding. The participants were reevaluated in accordance with the HOPWA program regulations. According to our records the eligibility of both participants were reevaluated during the program year. For both cases the reexamination was affective on June 1, 2014.

Responsible Official: Federal Program Manager

Estimated Completion Date: Not applicable

Finding No. 2014-009

CFDA No.: 14.241

Housing Opportunities for Persons with AIDS

Compliance over Sub-recipient monitoring – Significant Deficiency

Criteria

The Municipality, as a pass through entity of program funds, is responsible for:

- Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition

In a sample of 3 subrecipients in all cases the single audit reports were not current. The single audit reports provided to us were for the fiscal year ended December 31, 2011 and June 2012.

Cause

Policies and procedures related to sub-recipients monitoring activities are not properly implemented.

Effect

The Municipality is not in compliance with sub-recipient monitoring compliance requirement. There could be situations in which the sub-recipient is not expending funds in accordance with laws and regulations and not detected by the Municipality in a timely manner.

Question costs

None

Recommendation

Policies and procedures with respect to sub-recipient monitoring should be revised to require that single audit for applicable sub-recipients be current. Timely action should be taken on any finding affecting the program.

Views of responsible officials

We do not concur with this finding. The monitoring procedure of the Municipality of San Juan requires sub-recipients with more than \$500,000 in federal receipts, the presentation of a single audit. For the three cases evaluated by the auditors, the Municipality requested and reviewed the single audits in accordance with the regulations. As a corrective action for the lack of one single audit, the subgrantee presented copy of the external auditors' engagement letter as evidence that the single audit had been engaged.

Responsible Official: Federal Program Manager

Estimated Completion Date: Not applicable

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Finding No. 2014-010

CFDA No.: 14.856 Project Based Section 8 Vouchers

Compliance over Reporting – Significant Deficiency

Criteria

OMB Circular A-133 requires that reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements.

Condition

During our review of the report HUD-52663 for the year ended June 30, 2014 we noted that the report contained mathematical errors and proper documentation supporting the data in the report was not provided for our examination. Housing assistance payments and administrative fee as included in the report had differences of \$150,233 and \$21,746 respectively when compared with amounts determined during our procedures.

Cause

There is no proper supervision and review of the federal awards reports.

Effect

The Municipality is reporting erroneous information to the Federal awarding agency.

Question costs

None

Recommendation

The Municipality should review its policies and procedures with respect to Federal awards preparation to require reconciliation of the report with actual data and proper supervision and approval of such reports.

Views of responsible officials

We concur with the finding and the independent auditors' recommendations. In order to prevent the recurrence of the situation a new procedure for VMS reporting and Reconciliation will be prepared.

Responsible Official: Federal Program Manager

Estimated Completion Date: June 30, 2015

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Finding No. 2014-011

CFDA No.: 14.871

Section 8 Vouchers

Compliance over Eligibility – Significant Deficiency

Criteria

The Circular A-102 common rule requires non-Federal entities receiving Federal awards establish and maintains internal control designated to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition

During our test of the program eligibility compliance requirement we noted the following:

- In a sample of 40 participants file in one instance the file did not have the required documentation to support eligibility. In addition, third party income verification and required inspections were not available in the file for our review.
- In a sample of 40 participants file in one instance the participant file was not provided to us.

Cause

Internal control was not properly executed to ensure effectiveness and compliance with requirements of Circular A-102.

Effect

The Municipality could not be in compliance with program eligibility requirement.

Question costs

\$13,735

Recommendation

We recommend that internal controls be evaluated to prevent future noncompliance

Views of responsible officials

We concur with the finding and the independent auditors' recommendation. As an immediate corrective action, the Municipality will adopt strict control policies over participant files to ensure all required program eligibility documentation, including the required inspection, is properly safeguarded and available at all times.

Responsible Official: Federal Program Manager

Estimated Completion Date: June 30, 2015

Finding No. 2014-012

CFDA No.: 14.871

Section 8 Vouchers

Compliance over Special Tests and Provisions – Significant Deficiency

Criteria

The Circular A-102 common rule requires non-Federal entities receiving Federal awards establish and maintains internal control designated to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition

- In a sample of 18 participants file two could not be located in the waiting list provided to us.
- In a sample of 18 participants to test compliance with Reasonable Test required, in two instances the participant's file was not provided for our examination
- In a sample of 40 participants to test compliance with Housing Quality Standard Enforcement, in 12 instances the participant's file was not provided for our examination.
- The schedule of prior year and current year utility allowance was not provided for our examination.

Cause

Internal control was not properly executed to ensure effectiveness and compliance with requirements of Circular A-102.

Effect

The Municipality may not be in compliance with program waiting list compliance requirement.

Question costs

None

Recommendation

We recommend that internal controls be evaluated to prevent future noncompliance

Views of responsible officials

We concur with the finding and the independent auditors' recommendations. We have presented a corrective action plan to HUD that includes the following actions:

- The Municipality will revise the information system (Living) in order to add a module to handle the waiting list and the PHA preferences. The system must be able to maintain an audit identifying the user and the date of the transactions.
- The Municipality will obtain training from vendor in the use of the module.
- After the revision to the Information System a new Waiting List will be presented to HUD with the appropriate information.

This corrective action plan was accepted by HUD.

Responsible Official: Federal Program Manager

Estimated Completion Date: June 30, 2015

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Finding No. 2014-013

CFDA No.: 93.600

Head Start

CFDA No.: 14.218

Community Development Block Grant

CFDA No.: 17.258, 17.259, 17.260

Work Investment Act Cluster

Compliance over Property Management – Significant Deficiency in Internal Control

Criteria

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Sub-recipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a sub-grant from a State. The requirements for equipment are contained in the A-102 Common Rule (§.32), program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The A-102 Common Rule requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition

In fiscal year 2014, the Municipality carried out a project to reconstruct a subsidiary of assets acquired with federal funds by reviewing all purchases in excess of \$5,000 for the past 5 years. Selected mayor items were traced back to physical inventories carried out at the federal program level. Although progress has been made to account for all assets acquired with federal funds, the Municipality should continue to refine its procedures to ensure that all assets are adequately accounted for and that the subsidiary record contains all documentation required by federal regulation.

Cause

The Municipality is in the process of reconstructing its subsidiary records and the focus at this stage was over major assets acquired.

Effect

Lack of adequate supporting may expose the Municipality to noncompliance with federal laws and regulations related to documentation required over assets acquired with federal funds.

Questioned Costs

None

Recommendations

The Municipality must continue its efforts to complete the subsidiary of assets acquired with federal funds and include all documentation required by federal laws and regulations over all assets.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Views of responsible officials

We concur with the finding and the independent auditors' recommendation. The Municipality will continue to strengthen its procedures over equipment acquired with federal funds and its corresponding subsidiary record, including expanding the coverage of assets evaluated and documented.

Responsible Official: Director of Finance
Estimated Completion Date: September 30, 2015

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Finding No. 2013-014

Program CFDA No.: 17.258, 17.259, 17.260 Work Investment Act Cluster

Compliance over Reporting – Significant Deficiency

Criteria

Accounting records. Grantees and subrecipients must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income, as established by 29CFR Financial reporting, §97.41 and Performance reporting, §97.40(b).

The Municipality maintains the two accounting system as required by program grantee.

Condition

Management did not provide for our examination a reconciliation of program costs per the two accounting systems. Therefore, we were unable to determine the amount of the difference, if any, between the two accounting systems.

Cause

Reconciliations between the two accounting systems are not prepared on a current basis.

Effect

The use of unreconciled accounting records may lead to incomplete or inadequate financial reporting.

Questioned Costs

None

Recommendations

The Municipality should establish a monthly reconciliation process among the two sets of accounting records to ensure that federal financial reports contain the same information that is recorded in the Municipality's official accounting system.

Views of responsible officials

We concur with the finding and the independent auditors' recommendation. The Municipality will carry out a monthly reconciliation process among the two sets of records to ensure that federal financial reports contain the same information that is recorded in the Municipality's official accounting system.

Responsible Official: Federal Program Manager / ALDL

Estimated Completion Date: June 30, 2015

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Finding No. 2014-015

Program CFDA No.: 17.258, 17.259 and 17.260 Work Investment Act Cluster

Compliance over Allowable Costs- Significant Deficiency in Internal Control

Criteria

OMB Circular A-87 requires that all expenses charged to a federal program be properly supported.

Condition

In a sample of 40 items in one instance management could not provide the supporting documentation for an expense charged to the program in the amount of \$5,773.

Cause

Internal controls over program allowable costs were not properly implemented.

Effect

The Municipality could be charging unallowable cost to the federal program or is charging costs that are not properly supported

Questioned Costs

\$5,773

Recommendation

The Municipality should revise its controls and procedures to make sure that all charges to a federal program are properly supported and accounted for in accordance with requirements of OMB Circular A-87.

Views of responsible officials

We concur with the finding and the independent auditor's recommendation. The Municipality will revise its controls and procedures to make sure that all charges to a federal program are properly supported.

Responsible Official: Federal Program Manager

Estimated Completion Date: June 30, 2015

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Finding No. 2014-016

CFDA No.: 14.241
CFDA No.: 14.218

Housing Opportunities for Persons with AIDS
Community Development Block Grant

Compliance over Reporting- Significant Deficiency in Internal Control

Criteria

Per program laws and regulations required reports for Federal awards should include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements.

Condition

During our test of compliance with the reporting requirements of the above referenced programs we noted the following:

- In the case of CFDA 14.241 Housing Opportunities for Persons with Aids we were not provided supporting documentation for all the financial data included in report HUD 40110-D
- In the case of CFDA 14.218 Community Development Block Grant financial information included reports PR-26 Financial Summary, which is used to determine compliance with earmarking requirement, and report PR-03 Activities Summary Report we were not provided supporting documentation for all financial data included in such reports.

Cause

Procedures to ensure reports are prepared accurately are not operating effectively.

Effect

The Municipality could be submitting information which is not accurately to Federal agencies

Questioned Costs

None

Recommendation

We recommend that reporting policies and procedures be revised to ensure that all reports are submitted with accurate data.

Views of responsible officials

We concur with the finding and the independent auditors' recommendation. The Municipality will adopt the necessary controls and procedures needed to ensure that all financial data included in the reports required by HUD are safeguarded and available at all times.

Responsible Official: Federal Program Manager/Housing Program Manager

Estimated Completion Date: June 30, 2015

Municipality of San Juan
(Commonwealth of Puerto Rico)
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Finding No. 2014-017

CFDA No.: 14.239 Home Investment Partnerships

Compliance over Earmarking- Material Weakness

Criteria

A participating jurisdiction may expend for its HOME administrative and planning costs an amount of HOME funds that is not more than ten percent of the fiscal year HOME basic formula allocation plus any funds received in accordance with 24 CFR section 92.102(b) to meet or exceed threshold requirements that fiscal year.

Condition

During our test of the earmarking compliance requirement related to administrative expenses we noted that the Municipality did not comply with the 10% limit approved by the Federal agency. The actual percentage of administrative expenses charged to the program during the year ended June 30, 2014 was 23%.

Cause

Oversight over compliance with earmarking requirement was not effective. In addition this event of noncompliance was not detected by the Municipality's internal control.

Effect

The Municipality is not in compliance with program earmarking requirement

Question Costs

\$271,425

Recommendation

We recommend that the Municipality establish policies and procedures to ensure that administrative costs does not exceed the 10% maximum.

Views of responsible officials

We do not concur with the finding and the independent auditors' recommendation. The Municipality did not exceed the ten percent (10%) limitation for allowable administrative expenditures during the fiscal year ended June 30, 2014 nor in the previous three fiscal years. For years 2013, 2012 and 2011 the Municipality expended 1.3%, 8.8% and 9.9% in administrative expenditures, respectively.

Responsible Official: Federal Program Manager

Estimated Completion Date: Not applicable.

Municipality of San Juan
(Commonwealth of Puerto Rico)
Summary Schedule of Prior Year Findings
For the year ended June 30, 2014

Finding Reference Number	Finding Description	Questioned Cost	Finding Current Status
2011-08	Federal Financial Reports of Federal Transit Administration Cluster Were Not Submitted	-	Corrective action was implemented.
2012-01	General Fund With Accumulated Deficit at June 30, 2012	-	Corrective action was implemented.
2012-02	Deficiencies Over Accounting Records	-	Situation still prevails. See Finding 2014-II-01.
2012-03	Checks Outstanding for More Than Six Months.	-	Corrective action was implemented.
2012-04	Lack of Physical Inventories Over Equipment and Vehicles	-	Corrective action was implemented.
2012-05	Deficiencies in the Execution of Property Management Procedures	-	Situation still prevails. See Finding 2014-III-13.
2012-06	Internal Control Deficiencies on Employees Files	-	Situation still prevails. See Finding 2014-II-02.
2013-II-01	Inadequate Accounting Records and Closing Procedures	-	Situation still prevails. See Finding 2014-II-01.
2013-II-02	Budgetary Deficits Not Amortized in Accordance to Law	-	Corrective action was implemented.
2013-II-03	Municipal License Tax collections Appropriated for Fiscal Year 2013-14 Used for Expenditures of Fiscal Year 2012-13	-	Corrective action was implemented.
2013-II-04	Business Continuity	-	Corrective action was implemented.
2013-II-05	Internal Audit	-	Corrective action was implemented.
2013-II-06	Terminated Employees	-	Corrective action was implemented.
2013-II-07	Security Monitoring	-	Corrective action was implemented.
2013-II-08	Information Systems Strategic Planning	-	Corrective action was implemented.
2013-III-1	Material weakness on Compliance With Property Management	-	Situation still prevails. See Finding 2014-III-13.
2013-III-2	Material Weakness on Compliance Over Transparency Act	-	Situation still prevails. See Finding 2014-III-04.
2013-III-3	Material Weakness on Compliance Over Federal Pell Grant Eligibility	-	Corrective action was implemented.
2013-III-4	Material Weakness on Compliance Over Community Services Block Grant Eligibility	-	Corrective action was implemented.
2013-III-5	Significant Deficiencies on Compliance Over Allowable Cost/Cost Principle on HOME Investment Act Grant	-	Corrective action was implemented.
2013-III-6	Material Weakness on Subrecipient Monitoring Over Housing Opportunities for Persons with AIDS Grant	-	Situation still prevails. See Finding 2014-III-09.
2013-III-7	Significant Deficiencies Over Outstanding Checks on the Section 8 Housing Choice Vouchers and Housing Opportunities for Persons With AIDS Grants	-	Corrective action was implemented.
2013-III-8	Material Weakness on Reporting Over Work Investment Act Cluster	-	Situation still prevails. See Finding 2014-III-14.