

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, 2019 and
Independent Auditors' Report Thereon*

Municipality of San Juan Commonwealth of Puerto Rico

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2019



Prepared by:

Department of Finance
Ms. Esperanza Ruiz Ríos
City Administrator

Hon. Carmen Yulín Cruz Soto
Mayor

December 18, 2019

Municipality of San Juan
Commonwealth of Puerto Rico
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2019

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INTRODUCTORY SECTION



Municipality of San Juan

Commonwealth of Puerto Rico

Ciudad • Patria

December 18, 2019

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 of the Municipality of San Juan, Commonwealth of Puerto Rico (the “Municipality”), as of and for the fiscal year ended June 30, 2019.

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. Unfortunately, the Employees Retirement System of the Commonwealth of Puerto Rico did not provide the Municipality the information needed to adopt an accounting standard that changes accounting and financial reporting for pension costs, which will have a significant impact on the Municipality’s financial position, results of activities, disclosures and required supplementary information. The omitted adjustments and disclosures led to a modified opinion by our external auditors over the fairness of the Municipality’s financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Except as required by the pension accounting standard described before, 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 334,109 inhabitants, according to the 2010 U.S. Census, with a population density of approximately 2,723 residents per square kilometer, making it the most densely populated municipality in Puerto Rico. The Municipality has land 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 HUD Median Income for Puerto Rico, the average family income in San Juan was approximately \$21,100 for 2019.

Puerto Rico's Gross Domestic Product ("GDP") and Gross National Product ("GNP") have decreased steadily over the past decade as a result of the financial crisis being faced by Puerto Rico. 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 \$101.1 million and \$67.4 million, respectively.

San Juan is the most important socioeconomic center in Puerto Rico. It accounts for 9.5% of Puerto Rico's population according to the latest figures from the Census Bureau. The unemployment rate in San Juan as of June 30, 2019 was 5.2%, which compares favorably with the unemployment for Puerto Rico, which stood at 7.8 % 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, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2019, the respective changes in net position of the governmental activities, and changes in fund balances (deficit) for each major fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2019, 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 (the "Commonwealth"). 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 VII 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 budget includes an estimate of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

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 include the strengthening of procedures to identify, audit and collect tax debt and prevent or detect tax evasion.

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) refocusing 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 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, 2019. 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.

INDEPENDENT AUDIT

Municipal Administration Regulations 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.

Gonzalez Torres & Co., CPA, PSC was selected to perform the independent audit of the Municipality’s basic financial statements, as of and for the fiscal year ended June 30, 2019, in accordance with 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, 2019, 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 and includes a modified opinion due to a GAAP departure resulting from financial information not provided by the Employees’ Retirement System of the Commonwealth of Puerto Rico causing the Municipality to be unable to account for and disclose the pension costs in accordance with the accounting standard related to pension costs.

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,



Ms. Esperanza Ruiz Ríos
City Administrator

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



ELECTED OFFICIALS

MAYOR

Hon. Carmen Yulín Cruz Soto

ELECTED MUNICIPAL LEGISLATURE

PRESIDENT

*Hon. Marco Rigau Jiménez

*Hon. Camille A. García Villafañe

*Hon. Ada Clemente González

*Hon. José E. Rosario Cruz

*Hon. Carmen H. Santiago Negrón

*Hon. Aixa Morell Perelló

*Hon. Claribel Martínez Marmolejos

*Hon. Tamara Rosa Pascual

*Hon. Aníbal Rodríguez Santos

*Hon. Jimmy D. Zorrilla Mercado

*Hon. José G. Maeso González

*Hon. Ada M. Conde Vidal

*Hon. Hiram Díaz Belardo

*Hon. Antonia Pons Figueroa

*Hon. Ángel Casto Pérez Vega

*Hon. Ángel Ortíz Guzmán

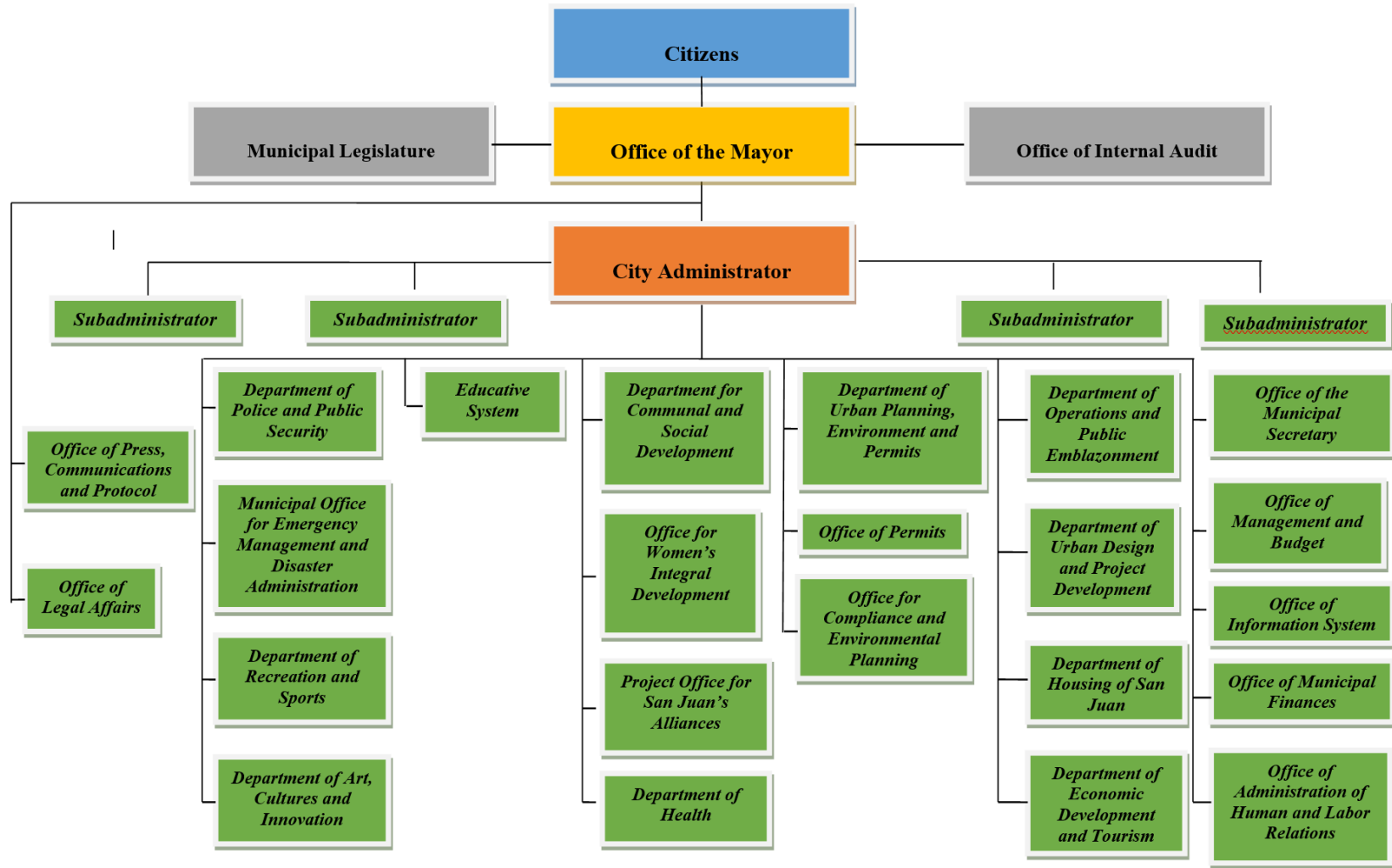
*Hon. Rolance G. Chavier Roper

APPOINTED OFFICIALS

CITY ADMINISTRATOR

Esperanza Ruiz Ríos

Municipality of San Juan
Commonwealth of Puerto Rico
Organizational Chart
Fiscal Year Ended June 30, 2019



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Hon. Carmen Yulin Cruz Soto and
Members of the Municipal Legislature of the
Municipality of San Juan,
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of San Juan** (the Municipality), of the Commonwealth of Puerto Rico, as of and for the fiscal year ended June 30, 2019, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUATION)

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental activities	Qualified
General fund	Unmodified
Debt service fund	Unmodified
Capital projects fund	Unmodified
Aggregate remaining fund information	Unmodified

Basis for Qualified Opinion on Governmental Activities

The Municipality has not implemented the requirements of Statement No. 73 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (GASB No. 73)*, as discussed in Notes 1 and 13 to the basic financial statements. Accordingly, the Municipality has not been able to determine and account for its proportionate share of pension liability, deferred inflow of resources and deferred outflow of resources related to pension costs and has not recognized the effect of current period changes in pension liability, deferred outflow of resources and deferred inflow of resources as these relate to pension costs in its Governmental Activities.

Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow of resources, deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 73, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expenses of the governmental activities. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and expenses of the governmental activities has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 73. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter described above in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Municipality of San Juan as of June 30, 2019 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUATION)

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of San Juan as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information Omitted

The Municipality has omitted the *GASB No. 73* required information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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 29 and 80 through 82 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUATION)

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of the Municipality's 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 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic 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 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.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's 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.

San Juan, Puerto Rico
December 18, 2019

The stamp number 2767051
was affixed to the original report



GONZÁLEZ TORRES & CO., CPA, PSC
License #96
Expires December 1, 2020



Municipality of San Juan
Commonwealth of Puerto Rico
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2019



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, 2019.

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 and deferred outflows of resources decreased \$147.0 million (11% decrease) during the current fiscal year and amounted to \$1.2 billion at June 2019.
- Total liabilities and deferred inflows of resources decreased \$211.6 million (8% decrease) during the current fiscal year and amounted to \$2.4 billion at June 2019.
- Total net position increased \$64.6 million (5% increase) and amounted to \$1.2 billion (accumulated deficit) at June 2019.
- Total revenues increased \$28.6 million (5% increase) and amounted to \$650.0 million for the fiscal year ended June 2019.
- Total expenses decreased \$88.7 million (13% decrease) and amounted to \$583.5 million for the fiscal year ended June 2019.
- Total fund balance of all governmental funds decreased \$92.5 million (1,583% decrease) during the current fiscal year and amounted to \$98.3 million (accumulated deficit) at June 2019.
- Total fund balance (total accumulated fund deficit) of the general fund decreased \$11.1 million (6% decrease) during the current fiscal year and amounted to \$171.9 million (total accumulated fund deficit) at June 2019.
- Total fund balance of the capital projects fund decreased \$93.7 million (97% decrease) during the current fiscal year and amounted to \$3.2 million at June 2019.
- Total fund balance of the debt service fund decreased \$661,347 (1% decrease) during the current fiscal year and amounted to \$63.3 million at June 2019.
- Total fund balance of the other governmental funds (non-major funds) decreased \$9.2 million (57% decrease) during the current fiscal year and amounted to \$7.1 million at June 2019.

Municipality of San Juan
Commonwealth of Puerto Rico
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2019

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 basic 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.

The governmental activities include general government, public safety, urban affairs, culture and recreation, health and welfare, urban development, economic development and education.

Governmental Funds Financial Statements

The governmental funds financial statements provide detailed information about the Municipality's most significant 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 funds 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 provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Municipality of San Juan
Commonwealth of Puerto Rico
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2019

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. That section includes a budgetary comparison schedule, which includes reconciliation between the statutory revenues and expenditures for budgetary purposes for the General Fund as presented in the governmental funds financial statements.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

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

	Governmental activities	
	2019	2018
ASSETS		
Current and other assets	\$ 308,431	\$ 422,563
Capital assets	555,409	588,279
Total assets	<u>863,840</u>	<u>1,010,842</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>315,847</u>	<u>315,847</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,179,687</u>	<u>\$ 1,326,689</u>
LIABILITIES		
Current liabilities	\$ 237,578	\$ 309,900
Noncurrent liabilities	2,052,730	2,214,480
Total liabilities	<u>2,290,308</u>	<u>2,524,380</u>
DEFERRED INFLOWS OF RESOURCES	<u>138,031</u>	<u>115,556</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>2,428,339</u>	<u>2,639,936</u>
NET POSITION		
Net investment in capital assets	248,855	277,075
Restricted	88,475	205,276
Unrestricted (deficit)	<u>(1,585,982)</u>	<u>(1,795,598)</u>
Total net position	<u>\$ (1,248,652)</u>	<u>\$ (1,313,247)</u>

Municipality of San Juan
Commonwealth of Puerto Rico

Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2019

The Municipality's total assets and deferred outflows of resources amounted to \$1.2 billion at June 30, 2019, reflecting a total net decrease of \$147.0 million (11% decrease) when compared with the prior fiscal year. The net decrease in total assets and deferred outflows of resources is mainly due to the net effect of (1) a decrease of \$164.7 million (99.8% decrease) in restricted deposits with governmental bank (Government Development Bank for Puerto Rico), (2) a decrease of \$32.9 million (5.6% decrease) in capital assets, (3) a decrease of \$29.2 million (26.7% decrease) in accounts and loans receivable, and (4) an increase of \$79.4 million (53.8% increase) in cash in commercial banks.

The decrease of \$164.7 million in restricted deposits with the Government Development Bank for Puerto Rico (GDB) is due to the fiscal crisis of such governmental bank that occurred during the last three years. On March 27, 2018, GDB publicly released the Fourth Amendment to the *Restructuring Support Agreement* (RSA), dated May 15, 2017, by and among GDB, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), and the Supporting GDB Bondholders (the Fourth Amendment).

Pursuant to the provisions of the Fourth Amendment and Article 501 of Act No. 109 of August 24, 2017, known as *GDB Restructuring Act of 2017*, as amended, on November 29, 2018 the substantial majority of the municipal deposits held at GDB amounting to \$154.1 million were applied as payments on a dollar-for-dollar basis to the outstanding principal amount of certain bonds, notes and loans payable of the Municipality of San Juan relative to the type of the corresponding deposit. In addition, as part of the Fourth Amendment transaction, the Municipality received \$10.2 million from its own deposits in GDB which were deposited in commercial banks.

The decrease of \$32.9 million in capital assets is mainly due to the net effect of the total current year capital investments (additions) of \$7.2 million and the current year depreciation expense of \$40.1 million. The current year additions are mainly related to (1) the Phases I and II of the construction and permanent improvements projects on two hundred forty six (246) parks and recreational facilities of San Juan previously affected in 2017 by Hurricane María amounting to \$3.4 million, (2) the acquisition of twenty-nine (29) vehicles and monitoring equipment for the increased public safety services provided by the municipal police amounting \$760,100, (3) permanent improvements to the Río Piedras Market Square and the Santurce Market Square, and (4) other capital expenditures related to equipment and vehicles, buildings, building improvements, site improvements and general infrastructure.

The decrease of \$29.2 million in accounts and loans receivable is mainly related to (1) a decrease of \$13.5 million (5% decrease) in property tax receivable, and (2) a decrease of \$13.2 million in intergovernmental grants and contributions receivable.

The decrease of \$13.5 million in property tax receivable is mainly due to (1) increased collections made by the Municipal Revenue Collection Center during the current year in comparison to reduced collections in the previous fiscal year when the impact of Hurricane María affected the economy of Puerto Rico and the overall collection of taxes, and (2) the reduction of the level of property tax subsidies granted to all municipalities in Puerto Rico pursuant to the New Fiscal Plan of the Government of the Commonwealth of Puerto Rico pursuant to Section 201(e)(2) of PROMESA. In fiscal years 2018 and 2019, the total municipal appropriation to all municipalities in Puerto Rico provided in the general's fund budget of the Government of the Commonwealth of Puerto Rico was reduced by \$150 million per year. The impact of this reduction in the appropriation for the Municipality of San Juan for fiscal year 2019 amounts to approximately \$22.8 million. Going forward there must be a reduction of 20% in each successive year before ultimately phasing out all subsidies in fiscal year 2024.

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The decrease of \$13.2 million in intergovernmental grants and contributions receivable is mainly related to the decrease of \$12.7 million in receivables from the U.S. Department of Homeland Security and the Federal Emergency Management Agency (FEMA) under the Public Assistance Grants Program (CFDA No. 97.036), which were substantially collected during the current fiscal year as a result of the approvals of certain project worksheets from FEMA covering the Hurricane Irma (DR-4336) and Hurricane María (DR-4339) disasters, both suffered in Puerto Rico during September 2017.

The increase of \$79.4 million (53.8% increase) in cash in commercial banks is mainly due to:

- (1) the benefits of Act No. 253 of December 6, 2018 (Act No. 253) which temporarily modified the purpose of the contributions made by the Municipality of San Juan to the Puerto Rico Health Insurance Administration (a health and welfare expense) during the period comprised between July 1, 2018 to September 30, 2019. The proceeds from those contributions were used in the following manner during the current fiscal year: (1) fifty percent (50%) amounting to \$32.2 million were applied to the Municipality's unpaid contributions to the Employees' Retirement System, and (2) fifty percent (50%) amounting to \$32.2 million were reimbursed to the Municipality in cash for general municipal operating purposes.
- (2) the insurance proceeds amounting to \$10.4 million received during the current year in relation to a property and casualty insurance claim related to the property damages caused by Hurricane María
- (3) the decrease of \$12.7 million in receivables from the U.S. Department of Homeland Security and the Federal Emergency Management Agency (FEMA) under the Public Assistance Grants Program (CFDA No. 97.036), which were substantially collected in the current year;
- (4) the \$10.2 million received from GDB as part of the Fourth Amendment of the RSA previously discussed, and the excess of revenues over expenses (net change in net position) amounting to \$64.6 million for the current fiscal year.
- (5) the increase of \$10.5 million in unearned municipal license taxes collected in advance through June 30, 2019.
- (6) the Municipality has continued applying a conservative approach of managing the municipal finances in the current fiscal year in order to improve its cash flows positions and to mitigate the significant adverse effects of GDB's collapse and other laws and regulations reducing the Municipality's revenues. As a result, the cash in commercial banks has also increased in comparison with the prior fiscal year as the Municipality (a) has implemented strict budgetary controls, (2) performs periodic forecasting of financial position, results of operations and cash flows, (3) maintains more acceptable levels of employee headcounts, (4) keeps strict controls over the purchasing and procurement of goods and services, (5) avoids unnecessary projects and costs through a cost-benefit approach evaluation and (6) maintains healthy levels of public debt. As result, the Municipality had an increase of \$64.6 million in the total net position and a net increase in the fund balance of the general fund of \$11.1 million for the fiscal year ended June 30, 2019.

The Municipality's total liabilities and deferred inflows of resources amounted to \$2.4 billion at June 30, 2019, reflecting a decrease of \$211.6 million (8% decrease) when compared with the prior fiscal year. The decrease is mainly due to (1) the decrease of \$202.7 million (26% decrease) in bonds and notes payable,

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(2) the increase of \$22.5 million (19% increase) in deferred inflows of resources, and (3) the decrease of \$8.4 million (7% decrease) in accounts payable and accrued liabilities:

The decrease of \$211.6 million in bonds and notes payable is due to (1) the scheduled ordinary debt service payments of principal of bonds and notes amounting to \$57.5 million plus interests, and (2) the application on November 29, 2018 of substantially all municipal deposits held at GDB amounting to \$154.1 million as additional (non-recurring) debt service payments to the outstanding principal amount of certain bonds, notes and loans payable of the Municipality previously discussed.

The increase in deferred inflows of resources of \$22.5 million is mainly due to the following facts:

- (1) the increase of \$10.5 million in unearned municipal license taxes as increased collections of the municipal license taxes for tax year 2019-2020 were collected in advance through June 30, 2019. These increased advance collections in the current year are related to higher declared volumes of businesses of taxable entities subject to this tax in comparison with the prior fiscal year which was negatively impacted by the conditions of the economy and Hurricane María, while the respective volumes reported for current year were normalizing.

The increase in unearned municipal license tax revenues is also due to the effects of Municipal Ordinance No. 41 of March 22, 2017, Series 2016-2017, which increased the effective tax rate from 0.2% to 0.5% to approximately 9,550 business taxpayers with annual volumes of business over \$300,000, while reduced the effective tax rate to an annual flat fee of \$25 for approximately 9,100 business enterprises with annual volumes of business not exceeding \$100,000.

- (2) the increase of \$11.5 million in unearned grants and contributions from the Puerto Rico Department of Transportation and Public Works, which were previously reported within intergovernmental payables in the previous fiscal year but were reported within deferred inflows of resources in the current year as these amounts represent unused capital grants not due and payable to the granting agency at June 30, 2019.

The decrease of \$8.4 million in accounts payable and accrued expenses is mainly due to (1) a reduction in the pending unpaid costs associated with the recovery efforts and projects needed as a result of the effects of hurricanes Irma and María, and (2) a reduction of \$88.7 million in total expenses in comparison with the prior fiscal year as a result of significant cost reductions and cash flows management measures taken by the Municipality during the current fiscal year. The decrease in accounts payable and accrued expenses is also due to more acceptable levels of employee headcounts, strict controls over the purchasing and procurement of goods and services through continued cost-benefit approach evaluations.

The largest portion of the Municipality's net position is the unrestricted of \$1.6 billion accumulated deficit. Such accumulated deficit is substantially related to the Municipality's share and allocation of the pension liability, that has been incurred and accumulated from the inception of the System to June 30, 2019, and the related deferred inflows of resources and deferred outflows of resources, amounting to \$1.4 billion, \$26.6 million and \$315.8 million, respectively, pursuant to the audited *Schedules of Employer Allocations and Schedules of Pension Amounts by Employer as of and for the years ended June 30, 2016 and 2015*, issued by the Employees Retirement System of the Commonwealth of Puerto Rico on November 2, 2018.

The net position generally consists of the excess of assets and deferred outflows over related liabilities and deferred inflows that are neither externally legally restricted, nor invested in capital assets. This deficit is

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the consequence of the net pension liability referred to above and budgets which had revenue shortfalls, combined with the payment of expenditures in excess of anticipated amounts, such as compensated absences, landfill closure and post closure costs 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 \$248.9 million net investment in capital assets such as land, infrastructure, buildings, equipment, among others, net of the respective outstanding debt incurred throughout the years to acquire those capital assets. The Municipality uses these capital assets to provide services to its residents; consequently, these assets are not available for future spending. 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.

The Municipality's net position also includes net resources restricted for the debt service of bonds and notes payable amounting to \$78.2 million, and net resources restricted for other purposes amounting to \$10.3 million, principally for federal and state-funded programs, and other purposes.

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Changes in Net Position

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

	<u>Governmental activities</u>	
	<u>2019</u>	<u>2018</u>
Revenues:		
Program revenues:		
Charges for services	\$ 65,893	\$ 59,058
Operating grants and contributions	126,269	133,784
Capital grants and contributions	2,161	1,097
General revenues:		
Property taxes	207,429	199,570
Municipal license taxes	116,361	110,538
Sales and usages taxes	71,791	60,923
Construction excise taxes	16,069	7,418
Intergovernmental grants and contributions, not restricted to specific programs	22,902	22,582
Interests on deposits	3,611	6,103
Miscellaneous revenues	17,610	20,426
Total revenues	<u>650,096</u>	<u>621,499</u>
Expenses:		
Program expenses:		
General government	\$ 144,579	175,503
Public safety	47,813	52,684
Urban affairs	122,444	117,037
Culture and recreation	23,492	23,749
Health and welfare	129,258	183,193
Urban development	6,252	7,000
Economic development	17,042	18,098
Education	56,349	53,616
Interests on long-term debt	36,252	41,258
Total expenses	<u>583,481</u>	<u>672,138</u>
Excess of revenues over expenses	<u>66,615</u>	<u>(50,639)</u>
Special Items	<u>(2,020)</u>	<u>-</u>
Net decrease in net position	64,595	(50,639)
Net position, at beginning of fiscal year, as restated	<u>(1,313,247)</u>	<u>(1,262,608)</u>
Net position, at end of fiscal year	<u>\$ (1,248,652)</u>	<u>\$ (1,313,247)</u>

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Governmental Activities

The Municipality's revenues increased by approximately \$28.6 million representing a 5% increase for the fiscal year ended June 30, 2019. Approximately 63% (61% in 2018) of the Municipality's total revenue came from taxes amounting to \$411.7 million, while approximately 23% (25% in 2018) resulted from federal and state intergovernmental grants and contributions amounting to \$151.3 million, including federal financial assistance amounting to \$127.5 million. Charges for services amounting to \$65.9 million, mainly related to the operations of the Municipal Health Department, provided approximately 10% (10% in 2018) of the total revenues.

Revenues from taxes increased by approximately \$33.2 million (9% increase) mainly due to (1) the increase of \$10.9 million in sales and usage taxes, (2) the increase of \$8.7 million in construction excise taxes, (3) the increase of \$7.8 million in property taxes, and (4) the increase of \$5.8 million in municipal license taxes.

The increase of \$10.9 million in sales and usage taxes is mainly due to the fact that during the prior fiscal year and pursuant to the emergency state caused by Hurricane María, the Puerto Rico Treasury Department issued its Administrative Determination No. 17-12 (AD 17-12) by which taxable sales of prepared foods were temporarily exempted from municipal and state sales and usage taxes for the period comprised between September 21, 2017 and January 7, 2018. This Administrative Determination reduced significantly the sales and usage tax revenues during the quarter ended December 31, 2017, while in the current year the imposition and collection of these taxes were normalized for the whole year. The increase in sales and usage taxes is also due to the benefits of (1) a municipal sales and usage tax amnesty approved by Municipal Ordinance Num. 23 of March 26, 2019, that provided approximately \$1.0 million in additional revenue in the current fiscal year, and (2) additional non-recurring sales and usage tax revenues amounting to \$1.2 million collected by the Government of the Commonwealth of Puerto Rico on behalf of the Municipality during the current fiscal year.

The increase of \$8.7 million in construction excise taxes is mainly due to the increased activity during the current fiscal year in construction, expansion, major repairs, relocations, alterations, and other types of capital projects caused by the disasters of hurricanes Irma and María. The citywide reconstruction project activities increased significantly as affected property owners collected their respective insurance proceeds for the purpose of carrying taxable construction projects on businesses.

The increase of \$7.8 million in property tax revenues is mainly due to the following facts:

- (1) an additional revenue arising from the current fiscal year liquidation made by the Municipal Revenue Collection Center (CRIM, by its Spanish acronym) of actual property tax collections in excess of property tax advances remitted to the Municipality by CRIM, which resulted in additional revenues amounting to \$4.1 million, and;
- (2) a non-recurring collection of \$3.5 million received from GDB as part of the Fourth Amendment of the RSA previously discussed. These amounts received from GDB represent a portion of the Municipality's Additional Special Property Tax Contribution cash deposit account (CAE, by its Spanish acronym) previously held at GDB.

The increase in municipal license tax revenues of \$5.8 million is mainly due to the effects of Municipal Ordinance No. 41 of March 22, 2017, Series 2016-2017, which increased for the whole current fiscal year the effective tax rate from 0.2% to 0.5% to approximately 9,550 business taxpayers with annual volumes

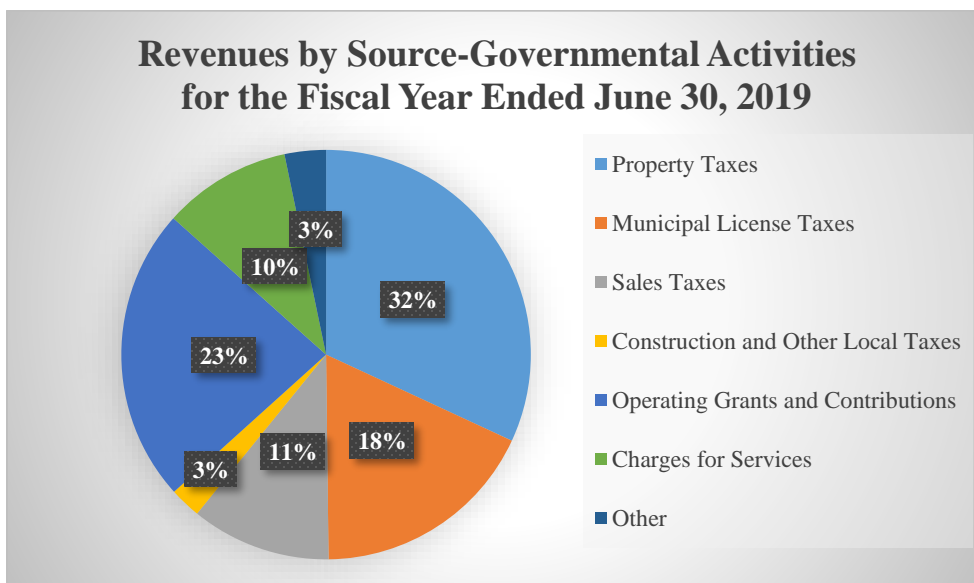
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of business over \$300,000, while reduced the effective tax rate to an annual nominal flat fee of only \$25 for approximately 9,100 business enterprises with annual volumes of business not exceeding \$100,000. These changes in municipal license tax rates were made for the purpose of rebalancing the tax base of San Juan to be more fair for smaller businesses by providing tax reliefs to the smallest 9,100 business owners having operations in San Juan not exceeding revenues of \$100,000 per year. Charges for services increased approximately \$6.8 million (12% increase) when compared with the prior fiscal year mainly due to increases in collections in medical services, rent and other charges, and licenses and permits.

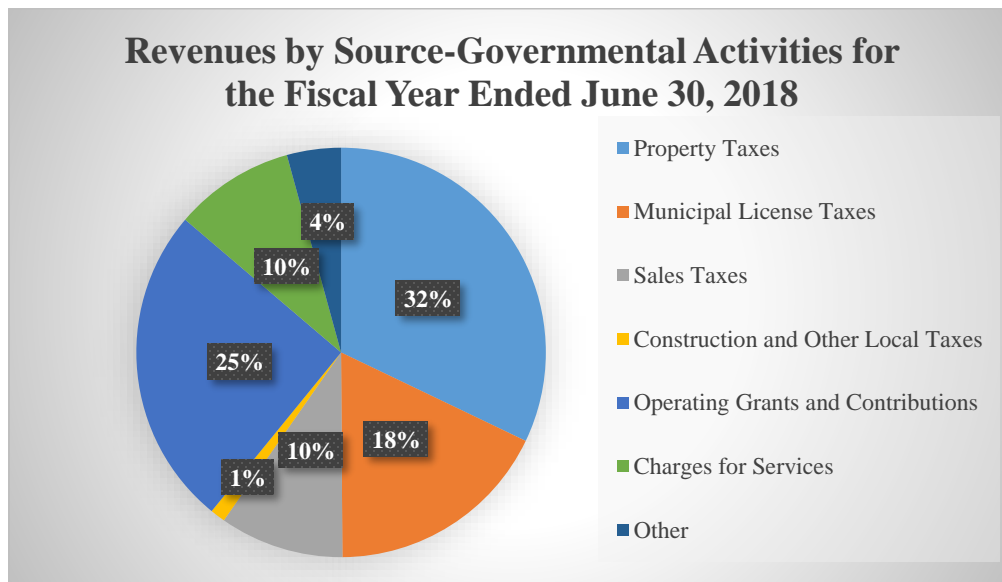
In the case of medical services the patients visits to clinics in the San Juan Municipal Hospital amounted to 23,347 visits for the current fiscal year, which is an increase of 1,599 visits (7% increase) in comparison with the prior fiscal year. In the other hand, the visits of patients to the municipal diagnostic and treatment centers amounted to 188,998 visits, which is an increase of 21,921 visits (13% increase) in comparison with the prior fiscal year. Furthermore, the patients visits to the Emergency Room of the San Juan Municipal Hospital amounted to 12,949 visits, which is an increase of 2,330 visits (22% increase) in comparison with the prior fiscal year.

These increases in charges for medical services are directly related to the effects of hurricanes Irma and María, which temporarily affected the operations of the San Juan Municipal Hospital and the municipal diagnostic and treatment centers during the prior fiscal year while the operations of all these and all other municipal departments were normalized in the current year. Specifically, the revenues of the Municipal Health Department for 2019 were \$3.5 million higher than the respective revenues for 2018 due to the increase in patients visits previously discussed in combination of the previous year's effects of hurricanes Irma and María. In addition, during the previous fiscal year, the revenues related to rent, parking lots, parks and recreational facilities were greatly affected as many of these facilities temporarily shut down operations in 2018 for the same reasons.

The following charts summarize the Municipality's revenues by sources for the governmental activities for the fiscal years ended June 30, 2019 and 2018:



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The Municipality's total expenses amounted to \$583.5 million and \$672.1 million for the fiscal years ended June 30, 2019 and 2018, respectively, for an aggregate decrease of \$88.7 million (13% decrease).

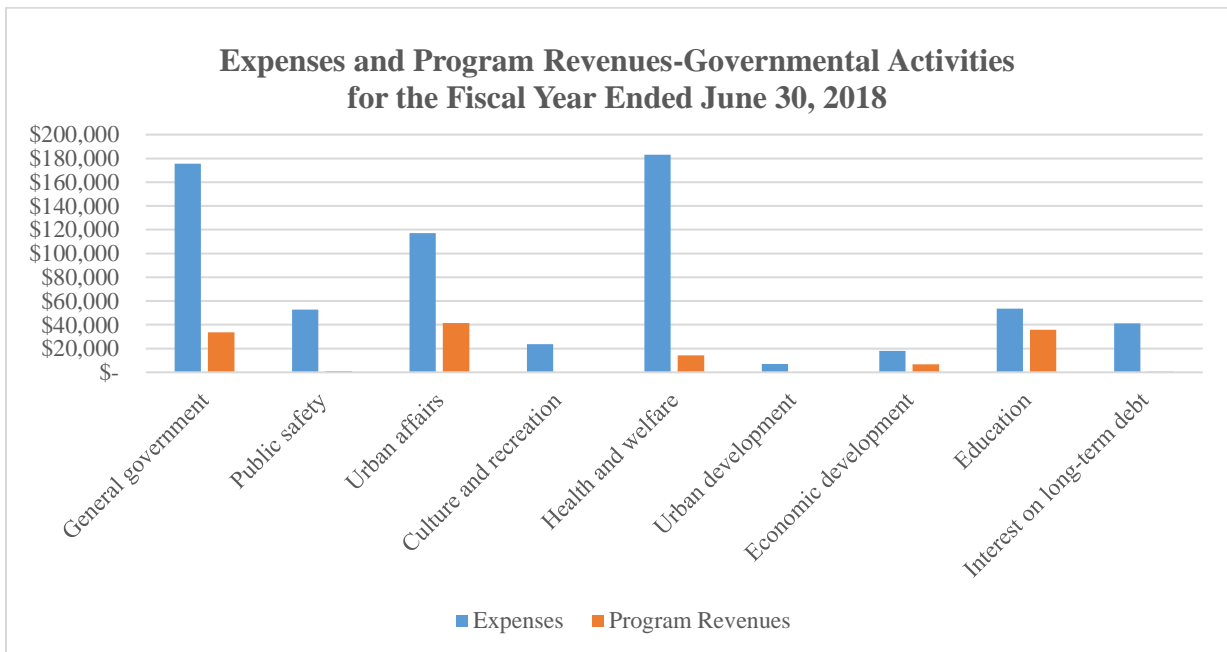
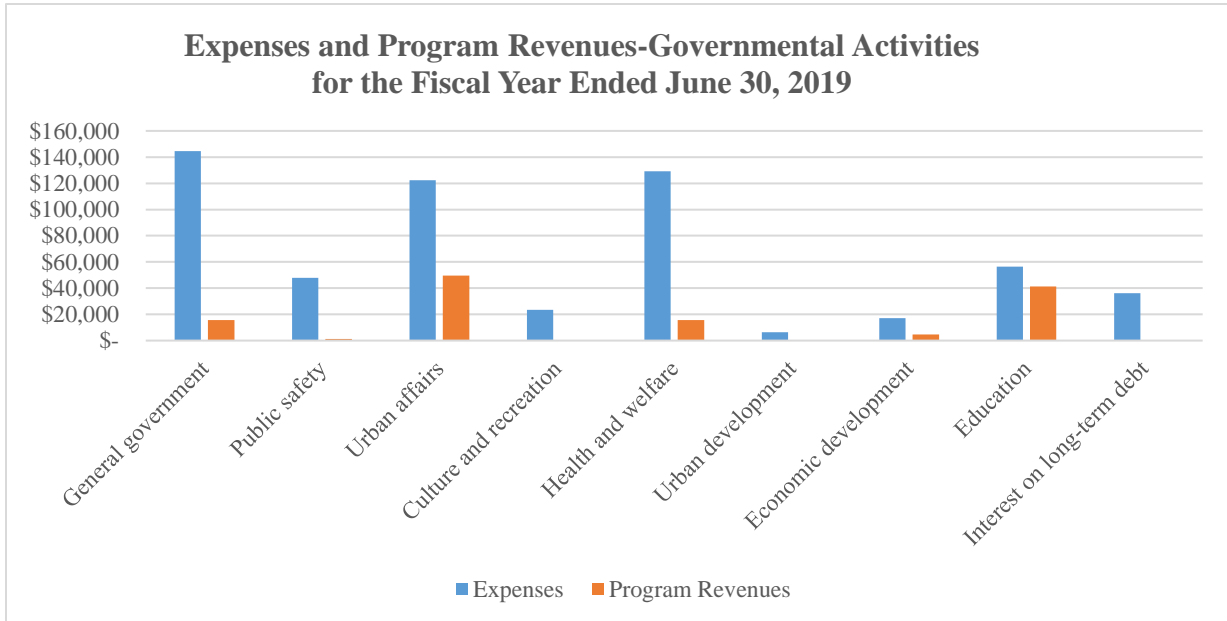
The total decrease in expenses was principally related to decreases of \$53.9 million in health and welfare expenses (29% decrease) and \$30.9 million in general government expenses (18% decrease).

The decrease of \$53.9 million in health and welfare expenses is mainly related to the benefits of Act No. 253 of December 6, 2018 (Act No. 253) which temporarily modified the purpose of the contributions made by the Municipality of San Juan to the Puerto Rico Health Insurance Administration (a health and welfare expense) during the period comprised between July 1, 2018 to September 30, 2019. The proceeds from those contributions were used in the following manner during the current fiscal year: (1) fifty percent (50%) amounting to \$32.2 million was applied as a payment to the Municipality's unpaid contributions to the Employees' Retirement System, and (2) fifty percent (50%) amounting to \$32.2 million were reimbursed to the Municipality in cash for general municipal operating purposes.

The decrease in general government expenses was mainly due to (1) several cost reduction initiatives and (2) continuous cash flows management measures taken by the Municipality during the current fiscal year. The decrease in general government expenses is also due to more acceptable levels of employee headcounts during the current year accompanied with strict controls over the purchasing and procurement of goods and services through continued cost-benefit approach evaluations. Furthermore, the decrease in general government expenses is also due to the effects of hurricanes Irma and María in September 2017 which forced the Municipality to temporarily incur in extraordinary unforeseen recovery expenses during a long period of the prior fiscal year, while during this fiscal year no similar material unforeseen events occurred.

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The following chart summarizes the Municipality's program revenues compared to program expenses for the governmental activities for the fiscal years ended June 30, 2019 and 2018:



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

The Municipality uses fund accounting to 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.

At June 30, 2019, the Municipality's governmental funds reported combined fund deficits of \$98.3 million, with an excess of expenditures and other financing uses over revenues and other financing sources of \$92.5 million for the fiscal year ended June 30, 2019. The combined fund balances include nonspendable fund balances amounting to \$3.7 million at June 30, 2019. 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 \$90.4 million. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions to pay for debt service (\$69.2 million), the operations of federal and state-funded programs (\$18.0 million) and capital projects (\$3.2 million). There is a deficit of \$192.4 million at June 30, 2019.

General Fund

The general fund is the main operating fund of the Municipality. At June 30, 2019 and 2018, the general fund had an accumulated deficit of approximately \$171.9 million and \$183.0 million, respectively. The accumulated deficit of the general fund is mainly due to the following facts, among others:

- (1) The increase of approximately \$29.3 million in the Municipality's required contributions to the Government Employees Retirement System during the last four years as a result of various special laws, including those related to the Special Additonal Uniform Contribution and the Pay-As-You-Go System. These special laws have increased the general fund's pension-related liabilities to \$94.5 million at June 30, 2019.
- (2) The reduction of the level of property tax subsidies granted by the Government of the Commonwealth of Puerto Rico pursuant to its New Fiscal Plan pursuant to Section 201(e)(2) of PROMESA through the gradual elimination of the *Property Tax Leveling and Exoneration Funds*. The impact of this reduction in the appropriation for the Municipality of San Juan for fiscal year 2019 and 2018 amounts to approximately \$22.8 million per year (\$45.6 million through June 30, 2019).
- (3) GDB's insolvency and default, which caused the Municipality a total loss of \$154.1 million (\$5.3 million in the general fund recorded as special items) held in such bank for specific purposes, including for (1) the construction, purchase and improvement of major capital assets, (2) compliance with debt service requirements of long-term debt, and (3) other contractual and programmatic obligations.

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- (4) The lack of electrical power services, the large amount of migrating population out of Puerto Rico and the temporary or permanent closure of many businesses caused by hurricanes Irma and María in September 2017, materially affected the collection of revenues during the prior and current fiscal years. On September 2017, the Municipality also temporarily ceased operations and focused its activities to life-saving activities and immediate recovery efforts for the benefits of its residents. The Municipality suffered severe damage and monetary loss after the hurricanes.

In addition to the above, at December 31, 2012 the general fund had \$245.1 million of obligations and commitments for which no repayment resources were available at such date, including but not limited to: (1) pending accounts payable to suppliers and intergovernmental entities amounting to \$165.0 million, (2) a budgetary cash deficit of \$45.6 million, (3) pending commitment of \$29.9 million for the payment of the fourth installment of the employees' early retirement termination benefit, and (4) pending commitment of TRANS notes amounting to \$4.6 million. During the fiscal year ended June 30, 2013 and 2014, the Municipality issued Series A, B, C, and D of general obligation notes in order to comply with the obligations and commitments referred to above.

In order to mitigate the effects of the aforementioned external situations contributing to the general fund's accumulated deficit, during the current fiscal year the management of the Municipality took significant fiscal and operational measures. Those measures caused the total revenues and other financing sources of the general fund to exceed its total expenditures and other financing uses and special items by \$11.1 million for the current fiscal as explained below.

The total revenues of the general fund increased \$33.4 million (9% increase) in comparison with the prior fiscal year mainly due to increases in (1) construction excise taxes of \$8.4 million (110% increase), (2) sales and usage taxes of \$8.2 million (16% increase), (3) property taxes of \$7.5 million (6% increase), and (4) charges for services of \$7.4 million (13% increase).

The increase of \$8.4 million in construction excise taxes is mainly due to the increased activity during the current fiscal year in construction, expansion, major repairs, relocations, alterations, and other types of capital projects needed after the disasters of hurricanes Irma and María in September 2017. The citywide reconstruction project activities significantly increased as affected residential, business and industrial property owners collected their respective insurance proceeds for the purpose of carrying the construction projects needed, which are taxable for construction excise tax purposes.

The increase of \$8.2 million in sales and usage taxes is mainly due to the fact that during the prior fiscal year and pursuant to the emergency state caused by Hurricane María, the Puerto Rico Treasury Department issued its Administrative Determination No. 17-12 (AD 17-12) by which taxable prepared foods sales were temporarily exempted from municipal and state sales and usage taxes for the period comprised between September 21, 2017 and January 7, 2018. This Administrative Determination reduced significantly the sales and usage tax revenues during the quarter ended December 31, 2017, while in the current fiscal year the imposition and collection of these taxes were normalized for the whole year. The increase in sales and usage taxes is also due to the benefits of a sales and usage tax amnesty approved by Municipal Ordinance Num. 23 of March 26, 2019 that provided approximately \$1.0 million in additional revenue. Furthermore, the increase in sales and usage tax revenues is also due to additional non-recurring sales and usage tax revenues amounting to \$1.2 million collected by the Government of the Commonwealth of Puerto Rico on behalf of the Municipality during the current fiscal year.

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The increase of \$7.5 million in property tax revenues is mainly due to the following facts:

- (1) an additional revenue arising from the current fiscal year liquidation made by the Municipal Revenue Collection Center (CRIM, by its Spanish acronym) of actual property tax collections in excess of property tax advances remitted to the Municipality by CRIM, which resulted in additional revenues amounting to \$4.1 million, and;
- (2) a non-recurring collection of \$3.5 million received from GDB as part of the Fourth Amendment of the RSA previously discussed. These amounts received from GDB represent a portion of the Municipality's Additional Special Property Tax Contribution deposit account (CAE, by its Spanish acronym) previously held at GDB.

The increase in charges for services of approximately \$7.4 million when compared with the prior fiscal year mainly due to increases in collections in medical services, rent and other charges, and licenses and permits.

In the case of medical services, the patients' visits to clinics in the San Juan Municipal Hospital amounted to 23,347 visits for the current fiscal year, which is an increase of 1,599 visits (7% increase) in comparison with the prior fiscal year. In the other hand, the visits of patients to the municipal diagnostic and treatment centers amounted to 188,998 visits, which is an increase of 21,921 visits (13% increase) in comparison with the prior fiscal year. Furthermore, the patients' visits to the Emergency Room of the San Juan Municipal Hospital amounted to 12,949 visits, which is an increase of 2,330 visits (22% increase) in comparison with the prior fiscal year.

These increases in charges for medical services are directly related to the effects of hurricanes Irma and María, which temporarily affected the operations of the San Juan Municipal Hospital and the municipal diagnostic and treatment centers during the prior fiscal year while the operations of all these and all other municipal departments were normalized in the current year. Specifically, the revenues of the Municipal Health Department for 2019 were \$3.5 million higher than the respective revenues for 2018 due to the increase in patients visits previously discussed in combination of the previous year's effects of hurricanes Irma and María. In addition, during the previous fiscal year, the revenues related to rent, parking lots, parks and recreational facilities were greatly affected as many of these facilities temporarily shut down operations in 2018 for the same reasons.

The total expenditures of the general fund decreased \$74.8 million (15% decrease) mainly due to decreases in health and welfare of \$50.1 million (31% decrease), general government of \$25.8 million (17% decrease).

The decrease of \$50.1 million in health and welfare expenses is mainly related to the benefits of Act No. 253 of December 6, 2018 (Act No. 253) which temporarily modified the purpose of the contributions made by the Municipality of San Juan to the Puerto Rico Health Insurance Administration (a health and welfare expense) during the period comprised between July 1, 2018 to September 30, 2019. The proceeds from those contributions were used in the following manner during the current fiscal year: (1) fifty percent (50%) amounting to \$32.2 million was applied as a payment to the Municipality's unpaid contributions to the Employees' Retirement System, and (2) fifty percent (50%) amounting to \$32.2 million were reimbursed to the Municipality in cash for general municipal operating purposes.

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The decrease in general government expenditures of \$25.8 million was mainly due to (1) several cost reduction initiatives and (2) continuous cash flows management measures taken by the Municipality during the current fiscal year. The decrease in general government expenditures is also due to more acceptable levels of employee headcounts during the current year accompanied with strict controls over the purchasing and procurement of goods and services through continued cost-benefit approach evaluations. Furthermore, the decrease in general government expenditures is also due to the effects of hurricanes Irma and María in September 2017 which forced the Municipality to temporarily incur in extraordinary unforeseen recovery expenses during a long period of the prior fiscal year, while during this fiscal year no similar material unforeseen events occurred.

Debt Service Fund

The fund balance of the debt service fund as of June 30, 2019 and 2018 amounted to \$63.3 million and \$64.0 million, respectively. The net decrease in fund balance of the debt service fund amounted to \$661,347 which decreased \$13.1 million in comparison with the prior fiscal year mainly due to the net effects of the following facts:

- The total revenues of the debt service fund increased \$14.2 million (16% increase), principally related to the increase of \$12.4 million in its property taxes. The increase in property tax revenues is mainly due to an additional revenue arising from the current fiscal year liquidation made by the Municipal Revenue Collection Center (CRIM, by its Spanish acronym) of actual property tax collections in excess of property tax advances remitted to the Municipality by CRIM, which resulted in additional revenues.
- The decrease of \$17.0 million in the scheduled ordinary debt service payments of principal of bonds during the current fiscal year.
- As a result of GDB's insolvency and default, on November 29, 2018 an additional substantial portion of the debt service fund deposits held at GDB amounting to \$47.0 million were applied as additional (non-recurring) debt service payments on a dollar-for-dollar basis to the outstanding principal amount of certain bonds, notes and loans payable of the Municipality of San Juan relative to the type of the corresponding deposit pursuant to the Fourth Amendment to the *Restructuring Support Agreement (RSA)*, dated May 15, 2017, by and among GDB, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), and the Supporting GDB Bondholders. These additional debt service payments amounting to \$47.0 million were recorded as special items in the accompanying statement of revenues, expenditures and changes in fund balances.

Capital Projects Fund

- The fund balance of the capital projects fund as of June 30, 2019 and 2018 amounted to \$3.2 million and \$96.9 million, respectively. The net decrease in fund balance of the capital projects fund amounted to \$93.7 million and is mainly due to the fact that, as a result of GDB's insolvency and default, on November 29, 2018 substantially all municipal deposits of the capital projects fund held at GDB amounting to \$89.3 million were applied as additional debt service payments on a dollar-for-dollar basis to the outstanding principal amount of certain bonds, notes and loans payable of the Municipality of San Juan relative to the type of the corresponding deposit pursuant to the Fourth Amendment to the *Restructuring Support Agreement (RSA)*, dated May 15, 2017, by and among

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GDB, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), and the Supporting GDB Bondholders. These additional debt service payments amounting to \$89.3 million were recorded as special items in the accompanying statement of revenues, expenditures and changes in fund balances.

Other Governmental Funds

The fund balance of the other governmental fund as of June 30, 2019 and 2018 amounted to \$7.1 million and \$16.3 million, respectively. The net decrease in fund balance of the other governmental funds amounted to \$9.2 million and is mainly due to the fact that, as a result of GDB's insolvency and default, on November 29, 2018 substantially all municipal deposits of the other governmental funds held at GDB amounting to \$12.5 million were applied as payments on a dollar-for-dollar basis to the outstanding principal amount of certain bonds, notes and loans payable of the Municipality of San Juan relative to the type of the corresponding deposit pursuant to the Fourth Amendment to the *Restructuring Support Agreement (RSA)*, dated May 15, 2017, by and among GDB, the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), and the Supporting GDB Bondholders. These additional debt service payments amounting to \$12.5 million were recorded as special items in the accompanying statement of revenues, expenditures and changes in fund balances.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Municipality approved an original budget for the general fund of \$435.7 million. During the fiscal year, there were various amendments to the original approved budget 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 statutory budgetary basis of accounting, actual revenues of the general fund amounted to \$407.1 million while actual expenditures were \$400.4 million for the current fiscal year, resulting in a total positive variance (excess of revenues and transfers over expenditures, transfers and special items) of \$6.7 million (budgetary surplus).

The total net negative variance in revenues of \$28.6 million is mainly related to the negative variances of \$47.7 million in miscellaneous revenues, and positive variances of \$8.4 million in intergovernmental grants and contributions and \$7.1 million in property tax revenues.

The positive variance of \$8.4 million in intergovernmental grants and contributions is mainly related to the increase in the contributions in lieu of taxes from the Puerto Rico Electric Power Authority as a result of higher energy costs and the inclusion of certain previously-excluded properties to the computation of the contribution in lieu of taxes, both having the effect of increasing the annual contribution.

The positive variance of \$7.5 million in property tax revenues is mainly due to the following facts:

- (1) an additional revenue arising from the current fiscal year liquidation made by the Municipal Revenue Collection Center (CRIM, by its Spanish acronym) of actual property tax collections in excess of property tax advances remitted to the Municipality by CRIM, which resulted in additional revenues amounting to \$4.1 million, and;
- (2) a non-recurring collection of \$3.5 million received from GDB as part of the Fourth Amendment of the RSA previously discussed. These amounts received from GDB represent a portion of the

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Municipality's Additional Special Property Tax Contribution deposit account (CAE, by its Spanish acronym) previously held at GDB.

The negative variance of \$47.7 million in miscellaneous revenues is related to the continued recovery process of hurricanes Irma and Maria which has taken longer than previously expected, therefore, preventing the sale of certain municipal properties that were available and budgeted for sale at approximately \$14.6 million during the current fiscal year, and the temporary suspension of other budgeted projects estimated for approximately \$33.1 million for similar reasons.

The total positive variance in expenditures of \$35.4 million is principally related to the positive variance of \$45.7 million in general government expenses. These variances are the result of (1) several cost reduction initiatives and (2) continuous cash flows management measures taken by the Municipality during the current fiscal year. The positive variance in general government expenditures is also due to more acceptable levels of employee headcounts during the current year accompanied with strict controls over the purchasing and procurement of goods and services through continued cost-benefit approach evaluations. Furthermore, the positive variance in general government expenses is also due to the effects of hurricanes Irma and María in September 2017 which forced the Municipality to temporarily incur in extraordinary unforeseen recovery expenses during a long period of the prior fiscal year, while during this fiscal year no similar material unforeseen events occurred.

The negative variance of \$7.8 million in transfers to other funds is related to financial resources provided by the general fund to the capital projects fund needed as a result of GDB's insolvency and default.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2019 and 2018 amounted to approximately \$555.4 million and \$588.3 million, respectively, at cost net of accumulated depreciation. This investment in capital assets includes land, buildings, site improvements, equipment, intangibles, infrastructure, works of art, vehicles and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the Municipality, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

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	Governmental activities	
	(in thousands)	
	2019	2018
Land and improvements	\$ 123,730	\$ 123,730
Works of art and historical treasures	2,224	2,224
Buildings and building improvements	204,492	218,764
Site improvements	53,073	59,759
Infrastructure	159,219	170,517
Equipment and vehicles	12,295	13,285
Intangible	-	-
Construction in progress	376	-
Total	555,409	588,279

The decrease of \$32.9 million in capital assets is due to the net effect of the total current year additions of \$7.2 million and the current year depreciation expense of \$40.1 million. The current year additions are mainly related to (1) the Phases I and II of the construction and permanent improvements projects on two hundred forty six (246) parks and recreational facilities of San Juan previously affected by Hurricane María amounting to \$3.4 million, (2) the acquisition of twenty-nine (29) vehicles and monitoring equipment for the increased public safety services provided by the municipal police amounting \$760,100, (3) permanent improvements to the Río Piedras Market Square and the Santurce Market Square, and (4) other capital expenditures related to equipment and vehicles, buildings, building improvements, site improvements and general infrastructure.

On September 6, 2017 and September 20, 2017, Hurricanes Irma and Maria devastated Puerto Rico, respectively, including the Municipality of San Juan. The Hurricanes caused unprecedented economic and infrastructure-related damages disrupting the daily lives of thousands of people in Puerto Rico.

Hurricane Maria is the worst storm to hit Puerto Rico in over 80 years and arrived only two weeks after Hurricane Irma passed just north of the island and left one million people without power. The analysis made by the management of the Municipality shows that the local municipal government suffered certain damages to its public facilities citywide, including buildings, parks, public facilities, other structures, equipment and vehicles. In addition, the local general infrastructure composed of roads, bridges, lighting systems and other general infrastructure assets also suffered certain damages all which have been claimed under the Municipality's property and casualty insurance policies and the applicable FEMA's federal financial assistance programs.

As part of this process, the Municipality evaluated its capital assets to determine whether an impairment of capital assets actually occurred as of and for the fiscal year ended June 30, 2019. The Municipality's management has concluded that no material impairment loss has been incurred as of and for the fiscal year ended June 30, 2019 because there were no material declines in service utility of the capital assets.

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As a result of the damages referred to above the Municipality's general fund includes proceeds from property insurance recoveries amounting to \$10.4 million for the current fiscal year, which have been recorded within miscellaneous revenues.

Additional details regarding the Municipality's capital assets can be found in Note 8 to the financial statements.

Debt Administration and the Government Development Bank for Puerto Rico

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 assessed valuation of real and personal property in San Juan of approximately \$26.6 billion (unaudited) at June 30, 2019, the legal debt limit margin of the Municipality was \$207.4 million at the end of the current fiscal year, as independently calculated by Puerto Rico Fiscal Agency and Financial Advisory ("AAFAF").

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 AAFAF, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("payment capacity").

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 money 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.

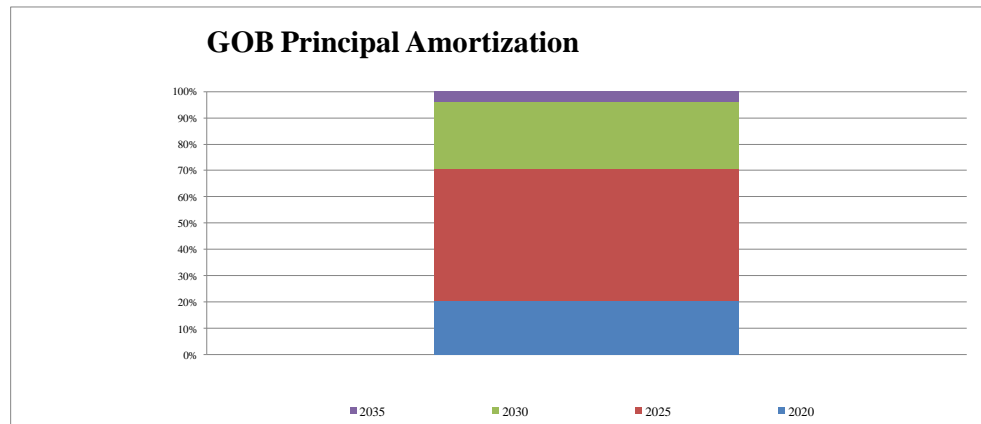
The Municipality's long-term debt includes bonds, notes and mortgage as shown in the table below, in thousands:

	Governmental activities	
	2019	2018
Bonds payable	\$ 202,507	\$ 295,292
Notes payable	331,583	440,218
Revenue bonds	50,432	51,252
Mortgage payable	-	440
Total	\$ 584,522	\$ 787,202

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At June 30, 2019, the Municipality had \$202.5 million of general obligation bonds outstanding.

As can be seen in the following chart, approximately 95.87% of the Municipality’s outstanding general obligation bonds will be retired within the next fifteen (15) years.



For a variety of reasons, several years ago GDB came to find itself immersed in a fiscal and viability crisis. In April 2016, the Governor of the Commonwealth imposed on GDB certain emergency operational restrictions, including restrictions on the withdrawal and transfer of deposits from GDB, and declared a moratorium on debt service payments and to stay related creditor remedies through January 31, 2017, with a possible two-month extension at the Governor’s discretion. On April 8, 2016, the Governor signed Executive Order No. 2016-10 declaring GDB to be in state of emergency pursuant to Act 21 of 2016, known as the “*Puerto Rico Emergency Moratorium and Financial Rehabilitation Act*”, as amended, based on GDB’s need for additional sources of liquidity.

In early 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) was created to assume the roles of the fiscal agent, financial advisor and disclosure agent for the Government. On May 15, 2017, AAFAF and GDB announced a *Restructuring Support Agreement* (“RSA”) with certain of GDB’s financial creditors. On June 19, 2017, AAFAF and GDB announced that parties representing over fifty percent (50%) of GDB’s Participating Bond Claims, as defined in the RSA, had signed the RSA.

On August 24, 2017, Act No. 109, known as *GDB Restructuring Act (Ac No. 109)*, was enacted. to establish the legal framework for the transactions contemplated by, or in furtherance of, the Restructuring Support Agreement dated May 17, 2017 and certified by the Oversight Board as a Qualifying Modification under Section 601(g)(2)(A) of PROMESA, as the same may be amended from time to time in accordance with its terms.

GDB’s operational wind-down was completed on March 23, 2018, with all fundamental operations having ceased or transferred to other entities (i.e. AAFAF, EDB, etc.) and workforce restructuring completed with minimal “at will” staffing needed to conclude legal and operational matters through the fiscal year 2019.

On March 27, 2018, the GDB publicly released the Fourth Amendment (the “Fourth Amendment”) to the RSA, dated May 15, 2017, by and among GDB, AAFAF, and the Supporting Bondholders party thereto. The Fourth Amendment has been supported by GDB, AAFAF, and a portion of the creditors to the RSA.

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Pursuant to the provisions of the Fourth Amendment and Article 501 of the GDB Restructuring Act of 2017, as amended, on November 29, 2018 substantially all municipal deposits held at GDB amounting to \$154.1 million were applied as payments on a dollar-for-dollar basis to the outstanding principal amount of certain bonds, notes and loans payable of the Municipality of San Juan relative to the type of the corresponding deposit. The remaining balances of the municipal bonds, notes and loans payable were certified by the Puerto Rico Fiscal Agency and Financial Advisory Authority and all future payments of interest on such bonds, notes and/or loans shall be computed based on such balances.

The accompanying statement of revenues, expenditures and changes in fund balances – governmental funds include special items expenditures in the general fund, debt service fund, capital projects fund and other governmental funds amounting to \$5.3 million, \$47.0 million, \$89.3 million and \$12.5 million, respectively, in relation to the application of aforementioned deposits held in GDB to the outstanding balances of long-term debt referred to above. These expenditures have been classified as special items as these events surrounding the Fourth Amendment are both unusual in nature and infrequent in occurrence.

The Municipality has various outstanding notes payable amounting to \$440.2 million at June 30, 2019. 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 and usage taxes recorded in the debt service fund.

The decrease of \$211.6 million in bonds and notes payable is due to (1) the scheduled ordinary debt service payments of principal of bonds and notes amounting to \$57.5 million plus interests, and (2) the application on November 29, 2018 of substantially all municipal deposits held at GDB amounting to \$154.1 million as additional (non-recurring) debt service payments to the outstanding principal amount of certain bonds, notes and loans payable of the Municipality previously discussed.

Additional details regarding the Municipality's long-term debt can be found in Note 12 to the financial statements.

On April 13, 2018, FEMA requested a federal financial assistance for the Municipality amounting to \$5 million under the Community Disaster Loans Program ("CDL"), which provides loans with favorable terms and conditions to any eligible governmental applicant who demonstrate, among other things, that: (1) suffered a substantial loss of at least five percent (5%) of its tax revenues as a direct result of a major disaster and (2) has a need for financial assistance to compensate for the substantial revenue losses that currently, or in the near future, could limit the capability and power to continue performing its governmental functions in a normal way while the recovery efforts continue.

This credit facility is available for use during the following fiscal year. The term of the loan will be five (5) years and could be extended to ten (10) years at the request of the Municipality, subject to the approval of FEMA. The interest rate on the loan has been determined by the Secretary of the Treasury of the United States on the date of the signing of the promissory note. This interest rate is similar to that used in other obligations of the Treasury of the United States, adjusted to the nearest 1/8 percent. The Municipality issued a promissory note to FEMA and the United States Treasury and provided an adequate collateral to guarantee the repayment of the loan to be determined by FEMA.

The loan proceeds shall only be used by the Municipality to carry out its existing governmental operational functions or to expand its essential functions aimed at meeting disaster-related needs.

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The service of principal and interests on the loan might be forgiven by FEMA, totally or partially, under certain extraordinary circumstances. Any portion of the principal and interests of the loan not waived shall be paid at a time when the economic recovery has broadened the revenue base in support of the budget of the Municipality, in accordance with the terms and conditions of the CDL program agreed with FEMA.

At June 30, 2019, the approved credit facility under the CDL Program remains unused.

CURRENTLY KNOWN FACTS

a. Liquidity and Going Concern Considerations

Conditions of Puerto Rico Economy

Due to the increasing deterioration of the Island-wide economy during the last two decades, as reflected in the contraction in various industries, the increasing migration of Puerto Rico residents to the United States of America since the events of Hurricane Maria in 2017, the recent high unemployment rate and the increasing population living under poverty standards, the Municipality has suffered significant reductions in its tax revenues, principally in municipal license taxes and construction excise taxes during the last three years.

The Government of the Commonwealth of Puerto Rico has reduced the level of property tax subsidies to all municipalities in Puerto Rico during the last two fiscal year. The impact of this reduction in the Municipality for fiscal year 2019 amounted to approximately \$21 million of property taxes revenues less reported in the general fund.

In addition, upon the partial adoption of GASB Statement No. 68 as further explained in note 13, the Municipality recorded a net pension liability amounting to approximately \$1.4 billion. These factors ultimately caused the Municipality to report a negative net position of governmental activities amounting to \$1.2 billion at June 30, 2019. In addition, the general fund reported an accumulated deficit of \$172.0 million at year-end.

The financial statements have been prepared assuming the Municipality will continue as a going concern. The Municipality is currently evaluating different alternatives to improve its financial condition, results of operations and cash flows. Those measures include, among other things, the implementation of further cost reduction initiatives, the maximization of revenue collections and the evaluation of any available financing opportunities.

The management of the Municipality has taken aggressive fiscal measures to reduce the accumulated deficit of the general fund. These measures have provided a positive variance of \$35.4 million in total expenditures (budgetary basis) in comparison with the respective budgeted expenditures of the general fund for the current fiscal year.

As part of those initiatives, on March 23, 2017, the Municipal Ordinance No. 41, Series 2016-2017, was approved to amend Article 2.01(b) of Chapter II of the *Economic Development Code of San Juan* in order to establish new municipal license tax rates applicable to businesses in San Juan (Note 5). Management expects to maximize its municipal license revenues as a result of this measure. Other streams of municipal revenues are also expected to be maximized as other areas of the *Economic Development Code of San Juan* are reviewed in addition to carry out certain ongoing

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projects to maximize the collection of sales and usage taxes, property taxes and construction excise taxes, such as the sales and usage amnesty approved through the Municipal Ordinance No. 23, Series 2018-2019.

The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

b. The Puerto Rico Oversight, Management, and Economic Stability Act

On October 23, 2018, the Commonwealth of Puerto Rico issued the *New Fiscal Plan for Puerto Rico*, as certified by the Financial Oversight and Management Board for Puerto Rico. This Plan outlines a number of general proposed structural reforms and fiscal measures that the management of the Commonwealth of Puerto Rico has said are designed to provide Puerto Rico with an improved economic trajectory, including a restored electricity grid, repaired infrastructure, and a more effective and efficient public sector. The New Fiscal Plan includes proposed reforms related to (1) human capital and welfare, (2) ease of doing business, (3) energy and power regulatory, (4) infrastructure and capital investment, (5) health care, (6) public pension, and (7) tax compliance and fees enhancement, among others. The New Fiscal Plan also provides for suggested fiscal measures and certain structural reforms that may have a direct and material effect on the financial condition, results of operations and cash flows of the Municipality. The management of the Municipality is currently evaluating the impact, if any, of all of these fiscal policies to be implemented at the state government level as they are approved and announced publicly.

SIGNIFICANT LEGAL 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.

In addition, the Municipality is currently a defendant in seven separate legal proceedings from contractors seeking compensations for damages on alleged breaches of contracts and other claims. With respect to the aforementioned legal proceeding and all other pending and threatened litigation, the Municipality has reported liabilities of approximately \$8.5 million at year-end, for possible anticipated unfavorable judgments. These amounts were included in the basic 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 significantly in excess of recorded amounts.

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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
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Statement of Net Position
June 30, 2019

ASSETS	Governmental activities
Cash in commercial banks	\$ 106,206,132
Accounts receivable:	
Property taxes	41,625,004
Municipal license taxes	2,406,344
Sales and usage taxes	6,598,819
Construction excise taxes	346,918
Intergovernmental grants and contributions	18,323,924
Charges for medical services	6,086,483
Miscellaneous	2,389,851
Loans receivable, net of allowance for loan losses	1,599,762
Other unrestricted assets	1,774,843
Restricted cash in commercial banks	120,817,060
Restricted deposits with governmental bank	256,385
Capital assets not being depreciated	126,329,643
Capital assets being depreciated, net of accumulated depreciation	429,079,293
Total assets	<u>863,840,461</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Employees' Retirement System pensions	315,847,486
Total assets and deferred outflows of resources	<u>1,179,687,947</u>
 LIABILITIES	
Accounts payable and accrued liabilities	119,929,171
Intergovernmental payables	100,662,784
Accrued interests on bonds and notes	16,986,477
Noncurrent obligations:	
Due within one fiscal year	45,057,531
Due in more than one fiscal year	2,007,672,102
Total liabilities	<u>2,290,308,065</u>
 DEFERRED INFLOWS OF RESOURCES	
Municipal license taxes	98,645,726
Intergovernmental grants and contributions	12,803,461
Employees' Retirement System pensions	26,582,492
Total deferred inflows of resources	<u>138,031,679</u>
 Total liabilities and deferred inflows of resources	<u>2,428,339,744</u>
 NET POSITION	
Net investment in capital assets	248,855,414
Restricted for debt service	78,216,588
Restricted for federally-funded programs and other purposes	10,257,849
Unrestricted (deficit)	(1,585,981,648)
Total net position	<u>\$ (1,248,651,797)</u>

See notes to basic financial statements.

Municipality of San Juan
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Statement of Activities
Fiscal Year Ended June 30, 2019

Functions/Programs	Expenses	Program revenues		Capital grants and contributions	Net expenses and changes in net position
		Charges for services	Operating grants and contributions		
<i>Governmental activities</i>					
General government	\$ 144,579,397	\$ 10,270,668	\$ 15,541,000	\$ -	\$ (118,767,729)
Public safety	47,813,301	688,772	833,600	360,290	(45,930,639)
Urban affairs	122,443,684	181,333	49,474,596	44,482	(72,743,273)
Culture and recreation	23,492,130	1,454,936	249,008	-	(21,788,186)
Health and welfare	129,258,354	41,169,626	13,949,166	1,756,609	(72,382,953)
Urban development	6,251,742	1,948,216	23,222	-	(4,280,304)
Economic development	17,042,167	6,869,380	4,749,015	-	(5,423,772)
Education	56,349,298	3,309,578	41,256,014	-	(11,783,706)
Interests on long-term debt	36,251,580	-	193,017	-	(36,058,563)
Total	\$ 583,481,653	\$ 65,892,509	\$ 126,268,638	\$ 2,161,381	(389,159,125)
<i>General revenues:</i>					
Property taxes					207,428,569
Municipal license taxes					116,361,300
Sales and usage taxes					71,791,115
Construction excise taxes					16,069,272
Intergovernmental grants and contributions, not restricted to specific programs					22,902,222
Interests on deposits					3,611,786
Miscellaneous revenues					17,610,284
Total general revenues					455,774,548
Special items					(2,019,743)
Net increase in net position					64,595,680
Net position at beginning of fiscal year					(1,313,247,477)
Net position at end of fiscal year					\$ (1,248,651,797)

See notes to basic financial statements.

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Balance Sheet - Governmental Funds
June 30, 2019

	General fund	Debt service fund	Capital projects fund	Other governmental funds	Total
ASSETS					
Cash in commercial banks	\$ 106,206,132	\$ -	\$ -	\$ -	\$ 106,206,132
Accounts receivable:					
Property taxes	26,741,012	14,883,992	-	-	41,625,004
Municipal license taxes	2,406,344	-	-	-	2,406,344
Sales and usage taxes	6,598,819	-	-	-	6,598,819
Construction excise taxes	346,918	-	-	-	346,918
Intergovernmental grants and contributions	1,704,888	-	18,000	16,601,036	18,323,924
Due from other funds	-	-	9,403,665	17,335,246	26,738,911
Charges for medical services	6,086,483	-	-	-	6,086,483
Miscellaneous	2,043,549	-	-	346,302	2,389,851
Loans receivable, net of allowance for loan losses	-	-	-	1,599,762	1,599,762
Other unrestricted assets	1,262,161	-	-	512,682	1,774,843
Restricted cash in commercial banks	690,365	104,321,576	1,082,695	14,722,424	120,817,060
Restricted deposits with governmental bank	3,845	-	-	252,540	256,385
Total assets	<u>\$ 154,090,516</u>	<u>\$ 119,205,568</u>	<u>\$ 10,504,360</u>	<u>\$ 51,369,992</u>	<u>\$ 335,170,436</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 92,471,996	\$ -	\$ 7,319,810	\$ 13,861,592	\$ 113,653,398
Intergovernmental payables	95,406,345	-	-	-	95,406,345
Due to other funds	9,107,271	-	-	17,631,640	26,738,911
Matured bonds due and payable	880,000	22,079,000	-	-	22,959,000
Matured notes due and payable	-	4,365,000	-	-	4,365,000
Interests payable	1,561,497	14,544,980	-	-	16,106,477
Total liabilities	<u>199,427,109</u>	<u>40,988,980</u>	<u>7,319,810</u>	<u>31,493,232</u>	<u>279,229,131</u>
DEFERRED INFLOWS OF RESOURCES					
Property taxes	26,741,012	14,883,992	-	-	41,625,004
Municipal license taxes	98,645,726	-	-	-	98,645,726
Construction excise taxes	346,918	-	-	-	346,918
Charges for medical services	843,774	-	-	-	843,774
Intergovernmental grants and contributions	-	-	-	12,803,461	12,803,461
Total deferred inflows of resources	<u>126,577,430</u>	<u>14,883,992</u>	<u>-</u>	<u>12,803,461</u>	<u>154,264,883</u>
FUND BALANCES					
Nonspendable	1,262,161	-	-	2,458,746	3,720,907
Restricted	8,280,391	63,332,596	3,184,550	15,589,586	90,387,123
Unrestricted (deficit)	(181,456,575)	-	-	(10,975,033)	(192,431,608)
Total fund balances	<u>(171,914,023)</u>	<u>63,332,596</u>	<u>3,184,550</u>	<u>7,073,299</u>	<u>(98,323,578)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 154,090,516</u>	<u>\$ 119,205,568</u>	<u>\$ 10,504,360</u>	<u>\$ 51,369,992</u>	<u>\$ 335,170,436</u>

(continued)

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, 2019*

Total fund balance of governmental funds	\$ (98,323,578)
Capital assets used in governmental activities are not considered current available financial resources, therefore, are not reported as assets in the governmental funds financial statements.	<u>555,408,936</u>
Deferred outflows of resources related to pensions are not considered current available financial resources, therefore, are not reported in the governmental funds financial statements.	<u>315,847,486</u>
The following unavailable revenue streams are considered revenues for government-wide financial reporting in the statement of activities, while are reported as deferred inflows of resources in the governmental funds financial statements:	
Property taxes	41,625,004
Construction excise taxes	346,918
Charges for medical services	843,774
Total	<u>42,815,696</u>
Except for the amounts reported on the governmental fund financial statements, the following long-term liabilities and deferred inflows of resources are not due and payable (mature) in the current period, therefore, are not reported in the governmental funds:	
Installment payments over accounts payable balances not due at the year-end	(31,573)
Accrued employees' Christmas bonuses	(6,244,200)
Intergovernmental payables	(5,256,439)
Bonds payable	(226,495,275)
Notes payable	(331,583,387)
Compensated absences	(61,932,460)
Claims and judgments	(8,503,196)
Estimated liability for municipal solid waste landfill postclosure care costs	(8,258,561)
Self-insurance claim liability	(614,243)
Pension liability	(1,388,898,511)
Deferred inflows of resources related to pensions	(26,582,492)
Total	<u>(2,064,400,337)</u>
Total net position of governmental activities	<u>\$ (1,248,651,797)</u>
	<i>(concluded)</i>

See notes to basic financial statements.

Municipality of San Juan
Commonwealth of Puerto Rico

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds
Fiscal Year Ended June 30, 2019

	General fund	Debt service fund	Capital projects fund	Other governmental funds	Total
REVENUES:					
Property taxes	\$ 128,366,544	\$ 92,513,962	\$ -	\$ -	\$ 220,880,506
Municipal license taxes	116,818,316	-	-	-	116,818,316
Sales and usage taxes	60,723,173	11,571,025	-	-	72,294,198
Construction excise taxes	16,064,645	-	-	-	16,064,645
Charges for services	66,539,331	-	-	-	66,539,331
Interests on deposits	558,660	102,028	2,504,620	446,478	3,611,786
Intergovernmental grants and contributions:					
Federal	-	-	-	127,478,099	127,478,099
Local	22,902,222	-	-	951,920	23,854,142
Miscellaneous revenues	16,874,083	-	-	731,552	17,605,635
Total revenues	<u>428,846,974</u>	<u>104,187,015</u>	<u>2,504,620</u>	<u>129,608,049</u>	<u>665,146,658</u>
EXPENDITURES:					
Current:					
General government	127,244,816	-	7,004,730	15,591,657	149,841,203
Public safety	46,656,816	-	-	833,600	47,490,416
Urban affairs	63,510,886	-	551,846	46,015,956	110,078,688
Culture and recreation	13,975,479	-	-	249,008	14,224,487
Health and welfare	112,223,069	-	11,663	14,007,300	126,242,032
Urban development	6,440,677	-	-	23,222	6,463,899
Economic development	10,286,846	-	-	5,089,006	15,375,852
Education	15,486,738	-	1,520	37,770,407	53,258,665
Capital outlays	4,755,977	-	291,276	2,161,381	7,208,634
Debt service:					
Principal	5,141,899	26,444,000	-	5,550,945	37,136,844
Interests	4,651,588	31,406,976	-	193,017	36,251,581
Total expenditures	<u>410,374,791</u>	<u>57,850,976</u>	<u>7,861,035</u>	<u>127,485,499</u>	<u>603,572,301</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>18,472,183</u>	<u>46,336,039</u>	<u>(5,356,415)</u>	<u>2,122,550</u>	<u>61,574,357</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	7,200	-	-	-	7,200
Transfers from other governmental funds	-	-	992,363	7,926,000	8,918,363
Transfers to other governmental funds	(2,107,781)	-	-	(6,810,582)	(8,918,363)
Total other financing sources (uses), net	<u>(2,100,581)</u>	<u>-</u>	<u>992,363</u>	<u>1,115,418</u>	<u>7,200</u>
SPECIAL ITEMS	<u>(5,254,604)</u>	<u>(46,997,386)</u>	<u>(89,337,036)</u>	<u>(12,472,048)</u>	<u>(154,061,074)</u>
NET INCREASE (DECREASE) IN FUND BALANCES	11,116,998	(661,347)	(93,701,088)	(9,234,080)	(92,479,517)
FUND BALANCES, BEGINNING OF FISCAL YEAR	(183,031,021)	63,993,943	96,885,638	16,307,379	(5,844,061)
FUND BALANCES, AT END OF FISCAL YEAR	<u>\$ (171,914,023)</u>	<u>\$ 63,332,596</u>	<u>\$ 3,184,550</u>	<u>\$ 7,073,299</u>	<u>\$ (98,323,578)</u>

(continued)

See notes to basic financial statements.

Municipality of San Juan
Commonwealth of Puerto Rico

*Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance –
Governmental Funds to the Statement of Activities*
Fiscal Year Ended June 30, 2019

Net decrease in fund balances as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds. \$ (92,479,517)

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 and other capitalizable additions over depreciation expense:

Capital outlays expenditures and other capitalizable additions	7,208,634
Depreciation expense	(40,075,894)
Total	(32,867,260)

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

Bonds and notes payable	188,737,230
Mortgage payable	440,945
Total	189,178,175

Governmental funds report proceeds from sale of capital assets as other financing sources. However, in the statement of activities the gain on the sale or disposition of capital assets is reported as miscellaneous income. This is the excess of proceeds on sale of capital assets over the gain on sale of capital assets. (2,551)

The following are the net changes 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	(13,451,937)
Municipal license taxes	(457,016)
Sales and usage taxes	(503,083)
Construction excise taxes	4,627
Miscellaneous receivables - charges for medical services	(646,822)
Total	(15,054,231)

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 changes in the following liabilities and long-term obligations:

Estimated liability for municipal solid waste landfill postclosure care costs	1,607,827
Compensated absences	3,051,989
Claims and judgments	17,431,336
Account payable and accrued liabilities	(2,863,649)
Intergovernmental payables	(3,406,439)
Total	15,821,064

Net increase in net position-governmental activities \$ 64,595,680

(concluded)

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 17-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, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2019, the respective changes in financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America (“GAAP”), as prescribed by the Governmental Accounting Standards Board (“GASB”).

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.

On July 1, 2017, the Municipality partially adopted the provisions of Statement No. 73 of the Governmental Standard Board, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 73 and Amendments to Certain Provisions of GASB Statements 67 and 68*. Accordingly, the Municipality retroactively recorded a prior-period adjustment of \$1,099,633,517 to the beginning balance of its governmental activities to record its share and allocation of the pension liability (\$1,388,898,511) and the related deferred inflows of resources (\$26,582,492) and deferred outflows of resources (\$315,847,486) pursuant to the audited *Schedules of Employer Allocations and Schedules of Pension Amounts by Employer as of and for the years ended June 30, 2016 and 2015*, issued by the Employees Retirement System of the Commonwealth of Puerto Rico (ERS) on November 2, 2018.

However, as discussed on Note 13, on August 23, 2017, the Governor signed into law the Act to Guarantee the Payment to Our Pensioners and Establish a New Plan for Defined Contributions for Public Servants (Act No. 106), which reformed the Commonwealth Retirement Systems so that their active participants would deposit their individual contributions in a new Defined Contributions Plan, that will be managed by a private entity.

Act No. 106 created the legal framework so that the Commonwealth can make payments to pensioners through the PayGo system.

The Employees Retirement System of the Commonwealth of Puerto Rico did not provide the information needed by the Municipality to record its proportionate share and allocation of the pension liability, deferred inflows of resources and deferred outflows of resources at June 30, 2019, and the related pension expense for the fiscal year then ended, or the information needed for the required disclosures or required supplementary information as of and for the year ended June 30, 2019. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information established by GASB No. 73 as of and for the fiscal year ended June 30, 2019.

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 funds financial statements, (4) the notes to 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 (deficit). 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.

Municipality of San Juan
Commonwealth of Puerto Rico
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2019

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.

At June 30, 2019, the Municipality reported net position restricted for debt service consisting of net resources restricted by bond indentures, debt covenants or certain laws and regulations to cover the debt service payments of bonds and notes payable. In addition, the Municipality reported net position restricted for the acquisition, construction and improvement of major capital assets, and net position restricted for other purpose at June 30, 2019.

- 3) **Unrestricted Net Position (Deficit)** - 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, this net position category has a negative balance of \$1.6 billion 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 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.

Municipality of San Juan
Commonwealth of Puerto Rico
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2019

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:

- 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, including medical 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.

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.

b. Governmental Funds Financial Statements

The governmental funds financial statements (“GFFS”) (the balance sheet and the statement of revenues, expenditures and changes in fund balances) provide 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.

Municipality of San Juan
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2019

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 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 Projects Fund** - The capital projects 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.

Non-major 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 reports 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) **Unrestricted** - 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.

Municipality of San Juan
Commonwealth of Puerto Rico
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2019

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. 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.

Receivables and revenues arising from donations and certain grants and entitlements from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties, 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.

Municipality of San Juan
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Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2019

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

All 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 funds 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 Funds Financial Statements** - The governmental funds 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.

The Municipal Revenue Collection Center (“CRIM”, by its Spanish acronym) is a governmental entity independent from the Municipality that is responsible of administering the Puerto Rico Municipal Property Tax Law on behalf of the municipalities of Puerto Rico. CRIM has the responsibility of collecting property taxes on behalf of the Municipality. Property tax collections made after year-end generally cannot be broken down by fiscal year since this information is readily not available and, therefore, property tax revenues are generally recorded collection (Note 4).

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 Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transaction*, for non-exchange transactions, but subject to, and limited by, the availability criteria discussed above. Accordingly, property tax and

Municipality of San Juan
Commonwealth of Puerto Rico
Notes to Basic Financial Statements
Fiscal Year Ended June 30, 2019

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

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

d. Assets, Liabilities and Net Position

- 1) Receivables* - 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.

- 2) **Loans Receivable and Allowance for Loan Losses** - Loans receivable amounting to \$1.6 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.

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

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

In the government-wide statement of net position, 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 acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized in the government wide statement of net position 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 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.

The estimated useful lives of major capital asset categories are:

Description	Years
Buildings	40
Building and site improvements	15
General infrastructure	40
Intangible assets (computer software)	10
Licensed vehicles	5
Machinery and equipment	3 to 5

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.

Impairment losses are reported in the statement of activities 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), the loss is reported separately from the grant awarded for

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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.

- 5) **Deferred Outflows of resources** - Deferred outflows of resources in government-wide financial statements arise only when the Municipality disburses financial resources related to pensions that are applicable to future years.
- 6) **Deferred Inflows of Resources** - Deferred inflows of resources in government-wide financial statements arise only when the Municipality receives resources before it has a legal claim to them. 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 ninety (90) days thereafter for all revenue streams (except for property taxes which generally are considered measurable upon collection) 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, the deferred inflow of resources (unearned revenue) is removed and revenue is recognized.
- 7) **Long-term Obligations** - The long-term liabilities reported in the accompanying statement of net position includes 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 a fund liability in the debt service fund when resources are available. In governmental funds 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 governmental funds 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 when earned.

9) **Claims and Judgments** - In government wide 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 funds financial statements, an expenditure and a liability is recognized only as liabilities come due for payment.

10) **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 2003 and received final approval for closure from regulatory agencies in 2005, therefore the liability for post-closing care costs was completely recognized upon 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, and is presented in the government-wide financial statements.

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.

11) **Fair Value** - The Municipality follows the provisions of GASB Statement No. 72, *Fair Value Measurements and Application*. The fair value measurements made in the accompanying financial statements assume that transactions take place in the Municipality's principal market, or the Municipality's most advantageous market in the absence of a principal market. Fair values have been measured assuming that general market participants would act in their economic best interest.

To determine fair value measurements, fair values have not been adjusted for transaction costs and the Municipality has considered the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards.

The Municipality has used valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair values. The techniques applied are consistent with one or more of the following approaches: (1) the market approach, (2) the cost approach, or (3) the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques have been applied consistently, though a change may be appropriate in certain circumstances.

The fair value measurements applied by management takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, the Municipality uses the fair value of that asset to measure the fair value of the liability. The Municipality's financial instruments consist of cash and cash equivalents, accounts and loans receivable, other assets, accounts payable and accrued liabilities, bonds and notes payable and other long-term obligations.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we can access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for a substantial portion of the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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Based on the criteria set forth above, the Municipality has classified its financial instruments as Level 2 instruments as of June 30, 2019.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Municipality's valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The observability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer would be reported at the beginning of the fiscal year. For the fiscal year ended June 30, 2019, there were no transfers from Level 2 to other categories.

The following methods and assumptions were used to estimate the fair values of the most significant financial instruments at June 30, 2019. There have been no changes in valuation methods.

- For cash in commercial banks, accounts and loans receivable, other assets and accounts payable and accrued liabilities, their respective estimated fair values approximate their carrying amounts recorded in the accompanying financial statements. The cost or contract value (net realizable value of assets and estimated settlement amounts of liabilities) was used to determine their respective fair values of these assets and liabilities due to their short-term nature and maturity periods
- For bonds payable, notes payable and other long-term obligations, the estimated fair values also approximate carrying amounts. These obligations have been incurred at the prevailing market interest rates and terms for these types of instruments, accordingly, the Municipality determined their fair values using valuation models that use observable market quotes.

Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The judgments made in determining the estimated fair value assigned to each financial instrument is significant and can materially impact the changes in net position and fund balances of the Municipality. The valuations are based on information available at June 30, 2019, and are based on expectations and assumptions that have been deemed reasonable by management.

Estimates developed using alternate are subjective, requiring significant judgments such as the amount and timing of future cash flows and the selection of appropriate discount rates that reflects market and credit risk.

The preceding valuation methods described may produce a fair value calculation that may not be indicative of net realizable or reflective of future fair values. Furthermore, while management believes that the Municipality's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or

assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

However, the difference between the estimated fair values and carrying values of the Municipality's financial instruments were not considered significant by the Municipality at June 30, 2019.

12) 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 fund and "due to" in the borrower 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 a transfer from the 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 uses in the fund making transfers and as other financing sources in the fund receiving transfers.
- c. Inter-fund reimbursements** - Represent repayments from the governmental fund responsible for particular expenditures to the governmental fund that initially paid for them. Inter-fund reimbursements has not been eliminated.

13) Risk Financing - The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Municipality.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accident's Compensation Administration ("ACA"), a component unit of the Commonwealth.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation ("SIFC"), a component unit of the Commonwealth. 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 Department of Labor and Human Resources ("DOL") of the Commonwealth. 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

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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 of the Commonwealth 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, 2019 amounted to approximately \$11.3 million. Workers' compensation insurance covering all municipal employees for the fiscal year ended June 30, 2019 amounted to approximately \$5.4 million.

14) Direct Charges - Pursuant to, and determined by, an internal cost allocation plan, certain costs initially are charged to the general fund and then billed as direct charges to other funds. Revenues from these charges are accounted for in the 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.

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

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3. CASH IN COMMERCIAL BANKS

At June 30, 2019, 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 project fund	Other governmental funds	
<i>Unrestricted:</i>					
Demand deposits	\$ 106,206,132	\$ -	\$ -	\$ -	\$ 106,206,132
<i>Restricted:</i>					
Demand deposits	690,365	104,321,576	1,082,695	14,722,424	120,817,060
Totals	<u>\$ 106,896,497</u>	<u>\$ 104,321,576</u>	<u>\$ 1,082,695</u>	<u>\$ 14,722,424</u>	<u>\$ 227,023,192</u>
	Bank Balances of Deposits				Total
	General fund	Debt service fund	Capital project fund	Other governmental funds	Total
<i>Unrestricted:</i>					
Demand deposits	\$ 117,633,182	\$ -	\$ -	\$ -	\$ 117,633,182
<i>Restricted:</i>					
Demand deposits	4,130,371	104,321,576	2,419,726	16,936,794	127,808,467
Totals	<u>\$ 121,763,554</u>	<u>\$ 104,321,576</u>	<u>\$ 2,419,726</u>	<u>\$ 16,936,794</u>	<u>\$ 245,441,649</u>

Custodial credit risk for cash 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 Commonwealth, but not in the Municipality's name.

The Municipality maintains an internal cash management pool in which several funds participate on a dollar equivalent and daily transaction basis. At June 30, 2019, the pool cash account in commercial banks had a balance of \$33.8 million of which \$24.8 million, negative \$958 thousand and \$10.0 million have been recorded in the general fund, capital projects 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 general fund is mainly composed of \$690,365 restricted for the municipal self-insurance program, the debt service of the revenue bonds of the International Center and other purpose.

Restricted cash in the debt service fund consists of unspent property tax and sales and usage tax collections amounting to \$91.7 million and \$12.6 million, respectively, that are available for the debt service payments of most bonds and general obligations notes.

Restricted cash in the capital projects fund amounting to \$1.1 million consists principally of unspent intergovernmental capital grants and contributions from the Legislature of Commonwealth of Puerto Rico and the Government of the Commonwealth of Puerto Rico.

Restricted cash in other governmental funds amounting \$14.7 million consists of intergovernmental operating and capital grants and contributions received from the Commonwealth and the federal government of the United States of America that are available for the operations of several operating and capital grant programs.

4. RESTRICTED DEPOSITS WITH GOVERNMENTAL BANK

The Municipality maintains deposits with the Government Development Bank for Puerto Rico (“GDB”), a component unit of the Commonwealth originally created to aid the Government of Puerto Rico on its fiscal duties and more efficiently carry out its responsibility to develop the economy of Puerto Rico. Over decades, GDB evolved and its role expanded to include, among other services, acting as fiscal agent, paying agent, financial advisor for the Commonwealth and its instrumentalities, public corporations and municipalities, and to grant interim and long-term financing to public entities and municipalities and private enterprises to promote the economic development of Puerto Rico.

GDB was also called upon to provide financial support during periods of financial distress, leveraging its strong credit rating, reputation, access to the capital markets and its constructive relationship with the investment community, to provide financial support to troubled public entities and assist them in regaining financial stability.

For a variety of reasons, several years ago GDB came to find itself immersed in a fiscal and viability crisis. In April 2016, the Governor of the Commonwealth imposed on GDB certain emergency operational restrictions, including restrictions on the withdrawal and transfer of deposits from GDB, and declared a moratorium on debt service payments and to stay related creditor remedies through January 31, 2017, with a possible two-month extension at the Governor’s discretion. On April 8, 2016, the Governor signed Executive Order No. 2016-10 declaring GDB to be in state of emergency pursuant to Act 21 of 2016, known as the “*Puerto Rico Emergency Moratorium and Financial Rehabilitation Act*”, as amended, based on GDB’s need for additional sources of liquidity.

In early 2017, the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) was created to assume the roles of the fiscal agent, financial advisor and disclosure agent for the Government. On May 15, 2017, AAFAF and GDB announced a *Restructuring Support Agreement* (“RSA”) with certain of GDB’s financial creditors. On June 19, 2017, AAFAF and GDB announced that parties representing over fifty percent (50%) of GDB’s Participating Bond Claims, as defined in the RSA, had signed the RSA.

On August 24, 2017, Act No. 109, known as *GDB Restructuring Act (Ac No. 109)*, was enacted. to establish the legal framework for the transactions contemplated by, or in furtherance of, the Restructuring Support Agreement dated May 17, 2017 and certified by the Oversight Board as a Qualifying Modification under Section 601(g)(2)(A) of PROMESA, as the same may be amended from time to time in accordance with its terms.

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GDB’s operational wind-down was completed on March 23, 2018, with all fundamental operations having ceased or transferred to other entities (i.e. AAFAF, EDB, etc.) and workforce restructuring completed with minimal “at will” staffing needed to conclude legal and operational matters through fiscal year 2019.

On March 27, 2018, the GDB publicly released the Fourth Amendment (the “Fourth Amendment”) to the RSA, dated May 15, 2017, by and among GDB, AAFAF, and the Supporting Bondholders party thereto. The Fourth Amendment has been supported by GDB, AAFAF, and a portion of the creditors to the RSA.

Special Items

Pursuant to the provisions of the Fourth Amendment and Article 501 of the GDB Restructuring Act of 2017, as amended, on November 29, 2018 substantially all municipal deposits held at GDB amounting to \$154.1 million were applied as payments on a dollar-for-dollar basis to the outstanding principal amount of certain bonds, notes and loans payable of the Municipality of San Juan relative to the type of the corresponding deposit. The remaining balances of the municipal bonds, notes and loans payable were certified by the Puerto Rico Fiscal Agency and Financial Advisory Authority and all future payments of interest on such bonds, notes and/or loans shall be computed based on such balances.

The accompanying statement of revenues, expenditures and changes in fund balances – governmental funds include special items expenditures in the general fund, debt service fund, capital projects fund and other governmental funds amounting to \$5.3 million, \$47.0 million, \$89.3 million and \$12.5 million, respectively, in relation to the application of aforementioned deposits held in GDB to the outstanding balances of long-term debt referred to above. These expenditures have been classified as special items as these events surrounding the Fourth Amendment are both unusual in nature and infrequent in occurrence.

Carrying Amounts of Deposits

At June 30, 2019, the carrying amounts and the respective restricted balances of the Municipality’s uninsured and uncollateralized restricted deposits with GDB as follows:

	Carrying Amounts of Deposits		
	General fund	Other governmental funds	Total
Restricted:	\$ 3,845	\$ 252,540	\$ 256,385

Restricted deposits in the general fund of \$3,845 consist of unspent notes proceeds that were originally restricted for the payment of certain operating expenses.

Restricted deposits in other governmental funds of \$252,540 represent unspent federal grants and contributions from the Federal Emergency Management Agency.

5. 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, 2019 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, 2019 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 November 2, 2015, the GDB in its capacity as fiscal agent for the municipalities, established an irrevocable trust with CRIM in which property tax collections shall be deposited in the name and for the benefit of all the municipalities of Puerto Rico pursuant to Article 4 of Public Act No. 80 of August 30, 1991, as amended.

Both banking institutions are co-authorized to render the fiduciary services, which include, among other things, the custody, management and investing of such municipal funds. In addition, both banks are bounded to keep those financial resources separated from any other deposits for the sole benefit of the municipalities.

On April 19, 2018, the Puerto Rico Oversight Board (PROB) delivered the compliance certification for the New Commonwealth Fiscal Plan pursuant to Section 201(e)(2) of PROMESA. The New Commonwealth Fiscal Plan states that to incentivize municipal operational changes, the Commonwealth must reduce the current level of property tax subsidies to all municipalities in Puerto Rico. In fiscal year 2018, the total municipal appropriation to all

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municipalities in Puerto Rico was reduced by \$150 million, bringing the new baseline appropriations to \$220 million per year. Going forward from this current baseline, there must be a reduction of 20% in each successive year, holding appropriations constant at 80% of current levels starting in FY2022 before ultimately phasing out all subsidies in fiscal year 2024. The estimated impact of this reduction of the appropriation for the Municipality for fiscal year 2019 amounts to approximately \$21 million of property taxes revenues reported in the general fund.

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. The current tax rates are as follows:

- Financial businesses – 1.50% of gross revenues
- Other businesses and organizations:
 - a. 100% exemption for businesses with annual revenues up to \$12,500
 - b. \$25 flat municipal license fee for businesses with annual revenues ranging from \$12,501 to \$100,000
 - c. 0.20% for businesses with annual revenues ranging from \$100,000 to \$300,000
 - d. 0.50% for businesses with annual revenues over \$300,000

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 year-end. Municipal license taxes collected prior to year-end 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 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.

On January 24, 2014, Act No.18, known as *Municipal Administration Fund Act* (“Act No. 18”), and Act No. 19, known as *Municipal Finance Corporation Act* (“Act No. 19”) were enacted to, among other things, amend Sections 4020.01, 4020.02 and 6080.14 of Act No. 1 of January 31, 2011, known as *Internal Revenue Code for a New Puerto Rico*.

Effective July 1, 2014, Act No. 18 reduced the statutory municipal sales and usage tax rate of all municipalities from one-point five percent (1.5%) to one percent (1%). Simultaneously, Act No.19 created the *Municipal Finance Corporation* (“MFC”), an affiliated entity 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 by the Municipality in previous fiscal years, that are payable from or backed by the municipal sales and usage taxes.

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 Municipality by allowing it 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 required that an amount equal to zero-point five percent (0.5%) of the sales and usage taxes collected by the Commonwealth be deposited in a special fund to be known as *Municipal Administration Fund* (“MAF”) in the name and for the benefit of the Municipality.

Accordingly, since July 1, 2014, the Commonwealth has made advances from the collections arising from the zero-point five percent (0.5%) of the sales and usage taxes to the MAF of the Municipality. The advances have been made and distributed to the Municipality on a monthly basis as follows in accordance with Section 4050 of Act No. 1, as amended:

- 1) Forty percent (40%) of the amounts transferred are available to cover general operating expenses of the general fund of each municipality;
- 2) Forty percent (40%) of the amounts transferred are 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;
- 3) Twenty percent (20%) of the amounts transferred are available and restricted to finance the acquisition, construction and improvement of major capital assets.

Pursuant to the emergency state caused by Hurricane María, the Puerto Rico Treasury Department issued its Administrative Determination No. 17-12 (AD 17-12) by which generally taxable sales of prepared foods were temporarily exempt from municipal and state sales and usage taxes for the period comprised between September 21, 2017 and January 7, 2018.

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.

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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.

e. Intergovernmental Receivables

The composition of intergovernmental receivables in the general fund at June 30, 2019 is:

	General fund	Capital projects fund	Other governmental funds	Total
State and other intergovernmental entities:				
<i>Government of the U.S. Virgin Islands -</i>				
High Intensity Drug Traffic Administration	\$ 1,704,888	\$ -	\$ -	\$ 1,704,888
Other governmental entities	-	18,000	-	18,000
Total state and local intergovernmental entities	<u>1,704,888</u>	<u>18,000</u>	<u>-</u>	<u>1,722,888</u>
Federal grants and contributions:				
<i>U.S. Department of Homeland Security - State Homeland :</i>				
Federal Emergency Management Agency (FEMA)	-	-	3,133,383	3,133,383
<i>U.S. Department of Housing and Urban Development -</i>				
Community Services Block Grant Cluster	-	-	1,443,297	1,443,297
<i>U.S. Department of Health and Human Services:</i>				
HIV Emergency Relief Project Program	-	-	1,518,016	1,518,016
Head Start	-	-	2,536,046	2,536,046
Other federal grantors on various programs	-	-	7,970,294	7,970,294
Total federal grants and contributions	<u>-</u>	<u>-</u>	<u>16,601,036</u>	<u>16,601,036</u>
Total intergovernmental receivables	<u>\$ 1,704,888</u>	<u>\$ 18,000</u>	<u>\$ 16,601,036</u>	<u>\$ 18,323,924</u>

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

6. LOANS RECEIVABLE

Loans receivable of the Independent Capital Fund, a non-major 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 \$1.6 million, net of an allowance for loan losses of \$5.8 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.

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7. INTERFUND TRANSACTIONS

Interfund receivables, payables and transfers are summarized as follows:

<u>Due to other governmental funds</u>	<u>Due from other governmental funds</u>		
	<u>Capital project fund</u>	<u>Other governmental funds</u>	<u>Total</u>
General fund	\$ 9,107,271	\$ -	\$ 9,107,271
Other governmental funds	296,394	17,335,246	17,631,640
Totals	<u>\$ 9,403,665</u>	<u>\$ 17,335,246</u>	<u>\$ 26,738,911</u>

<u>Transfers to other governmental funds</u>	<u>Transfers from other governmental funds</u>		
	<u>Capital project fund</u>	<u>Other governmental funds</u>	<u>Total</u>
General fund	\$ 992,363	\$ 1,115,418	\$ 2,107,781
Other governmental funds	-	6,810,582	6,810,582
Totals	<u>\$ 992,363</u>	<u>\$ 7,926,000</u>	<u>\$ 8,918,363</u>

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

- Recognize the outstanding balance of \$17.3 million of short-term loans among other governmental funds to temporarily finance the operations of several state and federally-funded programs.
- Recognize the outstanding balance of \$9.1 million of short-term loans granted by the capital projects fund to the general fund to temporarily cover certain cash flows needs.

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

- Non-routine transfer of \$6.8 million among other governmental funds to reimburse the operating costs of several programs.
- Non-routine transfer of \$992,363 from the general fund to capital project fund to reimburse the operating costs of various municipal programs.
- Routine transfer of \$1.1 million from the general fund to other governmental funds to reimburse the operating costs of various municipal programs.

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8. 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>Increases</u>	<u>Decreases and adjustments</u>	<u>Balance at end of fiscal year</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 123,729,761	-	-	\$ 123,729,761
Works of art	2,224,365	-	-	2,224,365
Construction in progress	-	375,517	-	375,517
Total capital assets not being depreciated	<u>125,954,126</u>	<u>375,517</u>	<u>-</u>	<u>126,329,643</u>
<i>Capital assets, being depreciated:</i>				
Buildings and building improvements	519,674,309	1,988,026	-	521,662,335
Site improvements	228,892,861	732,229	-	229,625,090
Infrastructure	318,384,459	386,008	-	318,770,467
Equipment and vehicles	70,523,167	3,726,854	(43,263)	74,206,758
Intangible	3,825,426	-	-	3,825,426
Total capital assets being depreciated	<u>1,141,300,222</u>	<u>6,833,117</u>	<u>(43,263)</u>	<u>1,148,090,076</u>
<i>Less: accumulated depreciation for:</i>				
Buildings and building improvements	(300,910,970)	(16,259,518)	-	(317,170,488)
Site improvements	(169,134,181)	(7,417,789)	-	(176,551,971)
Infrastructure	(147,867,275)	(11,683,875)	-	(159,551,150)
Equipment and vehicles	(57,237,749)	(4,714,712)	40,712	(61,911,749)
Intangible	(3,825,425)	-	-	(3,825,425)
Total accumulated depreciation	<u>(678,975,601)</u>	<u>(40,075,894)</u>	<u>40,712</u>	<u>(719,010,783)</u>
Total capital assets being depreciated, net	<u>462,324,621</u>	<u>(33,242,777)</u>	<u>(2,551)</u>	<u>429,079,293</u>
Capital assets, net	<u>\$ 588,278,747</u>	<u>(32,867,260)</u>	<u>(2,551)</u>	<u>\$ 555,408,936</u>

At June 30, 2019, the capital assets of the Municipality include certain parcels of land, buildings and buildings improvements with an aggregate carrying value of \$27.5 million that are available for sale, including the capital assets of the International Center.

On September 6, 2017 and September 20, 2017, Hurricanes Irma and Maria devastated Puerto Rico, respectively, including the Municipality of San Juan. The Hurricanes caused unprecedented economic and infrastructure-related damages disrupting the daily lives of thousands of people in Puerto Rico.

Hurricane Maria is the worst storm to hit Puerto Rico in over 80 years and arrived only two weeks after Hurricane Irma passed just north of the island and left one million people without power. The analysis made by the management of the Municipality shows that the local municipal government suffered certain damages to its public facilities citywide, including buildings, parks, public facilities, other structures, equipment and vehicles. In addition, the local general infrastructure composed of roads, bridges, lighting systems and other general infrastructure assets also suffered certain damages all which have been claimed under the Municipality's property and casualty insurance policies and the applicable FEMA's federal financial assistance programs.

As part of this process, the Municipality evaluated its capital assets to determine whether an impairment of capital assets actually occurred as of and for the fiscal years ended June 30, 2018

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and 2019. The Municipality's management has concluded that no material impairment loss has been incurred as of and for the fiscal year ended June 30, 2019 because there were no material declines in service utility of the capital assets.

As a result of the damages referred to above the Municipality's general fund includes proceeds from property insurance recoveries amounting to \$10.4 million, which have been recorded within miscellaneous revenues.

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

	<u>Amount</u>
General government	\$ 5,308,949
Public safety	1,650,241
Urban affairs	14,735,298
Culture and recreation	9,227,410
Health and welfare	4,483,273
Urban development	192,460
Economic development	1,976,029
Education	2,502,234
Total depreciation expense	<u>\$ 40,075,894</u>

9. 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 projects fund</u>	<u>Other governmental funds</u>		
Accounts payable	\$ 79,504,581	\$ 7,319,810	\$ 13,861,592	\$ 100,685,983	\$ 100,717,556
Compensated absences	1,911,001	-	-	1,911,001	1,911,001
Payroll-related accrued liabilities	11,056,414	-	-	11,056,414	17,300,614
Total	<u>\$ 92,471,996</u>	<u>\$ 7,319,810</u>	<u>\$ 13,861,592</u>	<u>\$ 113,653,398</u>	<u>\$ 119,929,171</u>

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10. INTERGOVERNMENTAL PAYABLES

Intergovernmental payables at year-end are as follows:

	Governmental fund	Statement of net position - governmental activities
Puerto Rico Government Employees Retirement System	\$ 94,467,737	\$ 94,467,737
Puerto Rico Electric Power Authority	304,434	4,610,873
Puerto Rico Medical Services Administration	-	950,000
Puerto Rico State Insurance Fund Corporation	633,878	633,878
Puerto Rico Aqueduct and Sewer Authority	296	296
Total intergovernmental payables	<u>\$ 95,406,345</u>	<u>\$ 100,662,784</u>

Intergovernmental payables to the Puerto Rico Employees Retirement System of \$94,467,737 million represents of the unpaid required employer and employee contributions to the system.

Intergovernmental payables to the Puerto Rico Electric Power Authority (“PREPA”) of \$304,434 in the general fund consist of unpaid energy consumption (due and payable) net of the contributions in lieu of taxes of \$20.9 million. Every fiscal year, PREPA shall distribute from its surplus a contribution in lieu of taxes (“CILT”) to all municipalities of Puerto Rico in exchange of full municipal tax exemption pursuant to the provisions of Act No. 57 of May 27, 2014, as amended. The accompanying statement of net position includes unpaid energy consumption billings amounting to \$4,610,873 that are due to PREPA (not due and payable) under a payment plan through 2022.

The maximum amount or cap of the CILT has been established by computing the average energy consumption of municipalities, on an annual kilowatt-hour basis, for the three years of highest consumption since the change in the formula in 2004 up to 2014. Of this maximum amount or cap, the municipalities were required to reduce five percent (5%) annually during the fiscal years ended June 30, 2015 through 2018, until a reduction of at least fifteen percent (15%) of the maximum consumption amount or cap is achieved.

Any consumption in excess of the maximum amount or cap established as contribution by virtue of the CILT shall be billed to the Municipality by PREPA for collection. PREPA also bills the Municipality for the energy consumption of all municipal revenue-generating properties, which are excluded from the annual CILT.

Intergovernmental payables to the Puerto Rico Medical Services Administration of \$950,000 thousand consist of unpaid medical services and related products and supplies, which are currently under payment plan (not due and payable) at June 30, 2019. In November 2013, the Municipality entered into a payment plan of \$11.5 million with the Puerto Rico Medical Services Administration.

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Intergovernmental payables to the Puerto Rico State Insurance Fund Corporation consist of \$633,878 consist of unpaid workers' compensation insurance premiums.

Intergovernmental payables to the Puerto Rico Aqueduct and Sewer Authority of \$296 consist of the unpaid water and sewer utility consumption.

11. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources are as follows at June 30, 2019:

	General fund	Debt service fund	Other governmental funds	Total governmental funds	Statement of net position - governmental activities
<i>Unavailable revenues:</i>					
Property taxes	\$ 26,741,012	\$ 14,883,992	\$ -	\$ 41,625,004	\$ -
Construction excise taxes	346,918	-	-	346,918	-
Miscellaneous receivables	843,774	-	-	843,774	-
Total unavailable revenues	<u>27,931,704</u>	<u>14,883,992</u>	<u>-</u>	<u>42,815,696</u>	<u>-</u>
<i>Unearned revenues:</i>					
Municipal license taxes	98,645,726	-	-	98,645,726	98,645,726
Intergovernmental grants and contributions	-	-	12,803,461	12,803,461	12,803,461
Employees' Retirement System Pensions	-	-	-	-	26,582,492
Total unearned revenues	<u>98,645,726</u>	<u>-</u>	<u>12,803,461</u>	<u>111,449,187</u>	<u>138,031,679</u>
Total deferred inflows of resources	<u>\$ 126,577,430</u>	<u>\$ 14,883,992</u>	<u>\$ 12,803,461</u>	<u>\$ 154,264,883</u>	<u>\$ 138,031,679</u>

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12. LONG-TERM OBLIGATIONS

Long-term obligations activity for the fiscal year ended June 30, 2019 is as follows:

	Balance at beginning of fiscal year	Increases	Decreases	Balance at end of fiscal year	Due within one fiscal year
Bonds payable	\$ 295,292,000	-	(92,784,665)	\$ 202,507,335	\$ 14,614,000
Revenue bonds payable	51,251,940	-	(820,000)	50,431,940	880,000
Mortgage payable	440,945	-	(440,945)	-	-
Notes payable	440,217,952	-	(108,634,565)	331,583,387	20,486,541
Compensated absences	64,984,449	1,358,173	(4,410,162)	61,932,460	4,410,162
Claims and judgments	25,934,532	1,260,057	(18,691,393)	8,503,196	2,444,758
Estimated liability for municipal solid waste landfill postclosure care costs	9,866,388	-	(1,607,827)	8,258,561	1,607,827
Self insurance claims liability	614,243	-	-	614,243	614,243
Pension liability	1,388,898,511	-	-	1,388,898,511	-
Total governmental activities long-term liabilities	<u>\$ 2,277,500,960</u>	<u>2,618,230</u>	<u>(227,389,557)</u>	<u>\$ 2,052,729,633</u>	<u>\$ 45,057,531</u>

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.

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 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, revenue obligations 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 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 commercial bank 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 the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF").

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.

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Bonds payable is composed as follows:

<u>Description</u>	<u>Outstanding amount</u>
2012 general obligation bonds for the construction, improvement and acquisition 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%	\$ 63,696,153
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%	22,404,546
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%	23,182,581
2008 general obligation bonds for the second payment of the early retirement termination benefit with an original amount of \$20.0 million due in annual installments of \$305,000 to \$1,635,000, through July 1, 2032; with interest ranging from 3.93% to 7.5%	12,278,055
2007 general obligation bonds for the first payment of the early retirement termination benefit with an original amount of \$22.6 million due in annual installments of \$357,000 to \$1,812,000, through July 1, 2031; with interest ranging from 6.60% to 7.0%	16,196,000
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 4.53% to 5.31%	9,270,000
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 4.37% to 5.28%	7,720,000 <i>(continues)</i>

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<u>Description</u>	<u>Outstanding amount</u>
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 4.73%	870,000
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 5.02%	9,600,000
2003 general obligation bonds for the construction and improvement 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 1.65% to 5.02%	5,760,000
2001 serial bonds for the construction and improvement 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 5.00% to 5.60%	29,925,000
1998 general obligations bonds for the construction and improvement 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 6.71% to 6.51%	1,605,000
Total bonds payable	<u>\$ 202,507,335</u>

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

Fiscal year ending June 30,	Principal	Interest
2020	\$ 14,614,000	\$ 12,157,237
2021	12,925,000	11,749,955
2022	13,776,000	10,965,251
2023	14,680,000	10,391,065
2024	15,649,000	9,725,017
2025-2029	71,496,000	33,493,323
2030-2034	51,005,208	11,575,952
2035-2037	8,362,127	784,887
Totals	<u>\$ 202,507,335</u>	<u>\$ 100,842,687</u>

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c. Revenue Bonds Payable

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 (4.25% at June 30, 2019).

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, 2019, the Municipality's general fund paid the debt service payments of the revenue bonds payable amounting to \$3 million. In addition, the acquired property is subject to a mortgage constituted as security for the obligation 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, at June 30, 2019.

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

Fiscal year ending June 30,	Principal	Interest
2020	880,000	2,143,357
2021	940,000	2,105,957
2022	1,020,000	2,066,007
2023	1,090,000	2,022,657
2024	1,170,000	1,976,332
2025-2029	7,320,000	9,040,375
2030-2034	10,510,000	7,258,095
2035-2037	27,501,940	3,166,922
Totals	\$ 50,431,940	\$ 29,779,703

e. Notes Payable

On September 24, 2002, CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB to extinguish in advance certain bonds payable issued by Public Finance Corporation ("PFC"), a subsidiary of GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996, which were acquired by PFC with recourse. The original face amount of the note allocated by CRIM to the Municipality was for a term not exceeding 30 years. The note bears interest at 6.50% during its

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first five years. Subsequently, from years 6 through 30, the loan shall bear variable interest at a rate of 125 basis 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, 2019 approximates \$7.9 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, 2019 approximates \$18.3 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% (3.15% at June 30, 2019) 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, 2019 approximates \$22.9 million. This note will be repaid from unrestricted property tax revenues.

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 \$660 thousand to \$2.7 million and will bear interest at 90-day LIBOR plus 1.25 percent with a (minimum of 5% and maximum of 7.5%) (3.85% at June 30, 2019). 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, 2019 approximates \$26.0 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 U.S. 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 \$23.4 million at June 30, 2019 and is payable in annual installments ranging from \$4.4 million to \$6.3 million, mature at various dates through August 2022 and bear interest at 0.2% over 90-day LIBOR (1.33% at June 30, 2019). This loan agreement will be repaid from future grant awards received from the Community Development Block Grants (CDBG) program.

On June 28, 2013, the Municipality borrowed \$165 million from GDB 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 expenditures amounting to \$165 million.

The 2013, Series A, Municipal General Obligation Notes, shall bear interests at rate of 1.5% over prime rate (7.0% at June 30, 2019). The notes are payable in twenty-five (25) annual installments ranging from \$1.9 million to \$5.2 million, plus interests, through July 1, 2020.

The 2013, Series B and C, Municipal General Obligation Notes, shall bear interests at variable rates (6.5% and 6.5%, respectively, at June 30, 2019) and are payable in twenty-five annual

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installments ranging from \$1.4 million to \$3.9 million and from \$1.1 million to \$1.6 million, respectively, plus interests, through July 1, 2020.

The outstanding balance as of June 30, 2019 of Series A, B, and C of the 2013 Municipal General Obligations Notes approximate \$69.9 million, \$52.4 million and \$21.8 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 expenditures and past due liabilities with suppliers outstanding since 2012. The outstanding balance as of June 30, 2019 approximates \$46.0 million. The 2013, Series D Municipal General Obligation Notes, shall bear interests at variable rates (7.0% at June 30, 2019) and are payable in annual installments ranging from \$740 thousand to \$4.2 million, plus interests, through July 1, 2020.

On January 29, 2014, the Municipality borrowed \$5 million from Oriental 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 (6.75% at June 30, 2019). The notes are payable in annual installments ranging from \$650,000 to \$785,000, plus interests, through July 1, 2020. The outstanding balance as of June 30, 2019 approximates \$1.6 million.

On June 28, 2014, the Municipality borrowed \$29.9 million from GDB to 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 (7.0% at June 30, 2019). The notes are payable in ten (10) annual installments ranging from \$2.1 million to \$4.1 million, plus interests, through July 1, 2023. The outstanding balance as of June 30, 2019 approximates \$8.5 million.

On August 31, 2014, the Municipality borrowed \$36.2 million from Banco Popular through the issuance of Series A of the 2014 Municipal General Obligation Note. Such note was issued for the purpose of construction of major capital assets. The note shall bear interest at a rate of 1.5% over prime rate (7.0% at June 30, 2019). The note is payable in eight (8) annual installments ranging from \$760 thousand to \$2.7 million, plus interests, through July 1, 2035. The outstanding balance as of June 30, 2019 approximates \$32.9 million.

The notes with commercial banks are subject to various debt covenants. The Municipality did not comply with some of those covenants and the financial institution waived the non-compliance as of June 30, 2019.

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The maturities of notes payable are as follows:

Fiscal year ending June 30,	Principal	Interest
2020	20,486,541	19,929,467
2021	199,883,591	14,999,263
2022	14,305,201	6,025,056
2023	12,801,252	5,693,911
2024	6,839,974	5,226,846
2025-2029	39,734,739	19,510,220
2030-2034	24,502,089	8,450,836
2035-2039	10,580,000	2,980,125
2040	2,450,000	91,875
Totals	\$ 331,583,387	\$ 82,907,599

f. *Compensated Absences*

The government-wide statement of net position includes approximately \$20.1 million, \$29.2 million and \$12.6 million of accrued vacation benefits, accrued sick leave benefits and payroll-related benefits, respectively, representing the Municipality's commitment to fund such costs from future operations.

g. *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 2003, the Municipality's landfill facilities were closed and in 2005, the Municipality received approval from regulatory agencies. Based on current costs, the preliminary annual estimate of post closure costs has been assessed to be approximately \$1.3 million for a period of approximately 20 years. The balance of post closure costs of \$8.3 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 established 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, 2019:

Unpaid claims at beginning of fiscal year	\$ 614,243
Payments of claims and adjustments	-
Total unpaid claims at end of fiscal year	<u>\$ 614,243</u>

Effective July 1, 2014, the Municipality discontinued the self-insurance program and acquired private insurance to cover these risks.

13. PENSION PLAN

On August 23, 2017, Act No. 106, known as the “*Law to Guarantee Payment to Our Pensioners*” (“Act No. 106”) was approved to establish a mechanism by which the general fund of the Commonwealth, through a “pay-as-you-go system”, would assume the pension obligations of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”), the Teachers’ Retirement System and Judiciary Retirement System.

Under the new pension system, the payments of the accumulated pensions will be disbursed, starting July 1, 2017, from the funds deposited in a trust held under the control of the Secretary of the Treasury of the Commonwealth but separated from the assets of the Commonwealth. The trust account will include the net proceeds of the liquidations of the net assets of the three retirement systems, and a “Pay-Go” charge imposed to the covered sponsoring employers. The disbursement of the benefits of all the pensioners will be guaranteed by the general fund of the Commonwealth.

The following discussion provides information about ERS before its curtailment as a result of the facts discussed in the previous two paragraphs.

Substantially all full-time employees of the Municipality participate in the ERS. The Employees Retirement System was a statutory trust created by Act No. 447 of May 15, 1951, as amended (“Act 447”), and a component unit of the Commonwealth.

On April 4, 2013, the Governor of Puerto Rico, signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS Act No. 3, became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS as further discussed below.

Members who had entered the ERS before January 1, 2000 participated in a defined benefit program. Members who began to participate prior to April 1, 1990 (“Act 447 Participants”) were entitled to the highest benefits structure, while those who began to participate on or after April 1, 1990 (“Act 1 Participants”) were subject to a longer vesting period and a reduced level of benefits, as provided by Act No. 1 of February 16, 1990 (“Act 1 of 1990”).

In 1999, Act 447 was amended to close the defined benefit program for new participants and, prospectively, establish a new benefit structure similar to a cash balance plan (this new benefit structure is referred to as System 2000). Members who entered the ERS on or after January 1, 2000 (System 2000 Participants) participate solely in System 2000. Act 3-2013 amended the law to eliminate the lump sum distribution alternative and substitute it for a life annuity payable to the System 2000 Participant. System 2000 Participants do not benefit from any employer contributions. Instead, employer contributions made on account of System 2000 Participants are used to reduce the accumulated unfunded pension benefit obligation of the ERS. System 2000 is not a separate plan as there are no separate accounts for System 2000 Participants. Contributions received from System 2000 Participants are pooled and invested by the ERS together with the assets corresponding to the defined benefit structure of Act 447 and Act 1 of 1990 and the defined contribution structure of System 2000, as amended by Act 3-2013, was to be paid from the same pool of assets of the ERS.

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Retirement and related benefits provided by the ERS and required contributions to the ERS by employers and employees, were determined by law rather than by actuarial requirements. As of July 1, 2011, after the adoption of Act 116 of July 6, 2011 (“Act 116”), the statutory employer contribution for the ERS increased from a minimum of 9.275% to a minimum of 10.275% of covered payroll and was supposed to increase annually until fiscal year 2021.

Required employee contributions for the ERS varied according to how the individual employee’s retirement benefits were coordinated with social security benefits. Act 3-2013 increased the employee contribution from 8.275% to 10% of covered payroll.

The ERS provided basic benefits under the defined benefit program principally consisting of a retirement annuity and death and disability benefits (collectively referred to herein as Basic System Pension Benefits). The ERS also administered benefits granted under various special laws that have provided additional benefits for the retirees and beneficiaries (collectively referred to herein as System Administered Pension Benefits). The System Administered Pension Benefits included, among others, additional minimum pension, death and disability benefits, ad-hoc cost-of-living adjustments and summer and Christmas bonuses. Act 3-2013 and Act 160-2013 amended the various laws providing some of these System Administered Pension Benefits to reduce some of the amounts payable to existing retirees while eliminating the benefits for all future retirees (those retiring after June 30, 2013 and July 31, 2014).

On June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) was enacted. PROMESA seeks to provide the Commonwealth and its covered instrumentalities with fiscal and economic discipline through among other things: (i) the establishment of an Oversight Board (ii) a temporary stay of all creditor lawsuits which expired on May 1, 2017, (iii) two alternative methods to adjust unsustainable debt (a) a voluntary debt modification process which establishes an out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors and (b) a quasi-bankruptcy proceeding under Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U. S. Bankruptcy Code. Title III of PROMESA establishes an in-court process for restructuring debts of Puerto Rico that is modeled after the process under Chapter 9 of the U.S. Bankruptcy Code.

On September 30, 2016, the ERS was designated by the Oversight Board as a Covered Territorial Instrumentality pursuant to PROMESA. On May 21, 2017, the Oversight Board filed a petition for the Retirement System in the United States District Court for the District of Puerto Rico, commencing a Title III case for the Retirement System. On June 15, 2017, the United States Trustee appointed an Official Committee of Retired Employees in the Commonwealth’s Title III cases.

After Act No. 106 became effective, the System Administered Pension Benefits began to be funded on a pay-as-you-go basis by the participating employers, including the Municipality. The System Administered Pension Benefits corresponding to former employees of the Municipality are obligations of the Municipality. Most of the funds used to cover the System Administered Pension Benefits for other covered employees are required to be paid by the Commonwealth.

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As the result of such reform, the Municipality is required to implement the requirements of GASB Statement No. 73 of the Governmental Standard Board, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73) during the year ended June 30, 2018.

The most recent audited financial statements available of the ERS were as of June 30, 2016, where the ERS was severely underfunded with a pension liability of approximately \$37,699 million and its fiduciary net position of approximately negative \$1,266 million. ERS has not issued its 2017 and 2018 basic financial statements, nor has it provided the Municipality with the required information to fully implement the requirements of GASB 73 as of June 30, 2018. ERS has only provided the Municipality with its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of June 30, 2017. Therefore, the accompanying governmental activities financial statements have been adjusted to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of June 30, 2017. Also, additional disclosures required by GASB 73 as well as required supplementary information have been omitted from these basic financial statements as information has not been provided by ERS.

As mentioned before, the Municipality partially adopted the provisions of GASB No. 73. Accordingly, the Municipality retroactively recorded a prior-period adjustment of \$1,099.6 million to the net position at the beginning of the fiscal year of its governmental activities to record its share and allocation of the pension liability, that has been incurred and accumulated from the inception of the System to June 30, 2018, and the related deferred inflows of resources and deferred outflows of resources, amounting to \$1,388.9 million, \$26.6 million and \$315.8 million, respectively, pursuant to the audited *Schedules of Employer Allocations and Schedules of Pension Amounts by Employer as of and for the years ended June 30, 2016 and 2015*, issued by the Employees Retirement System of the Commonwealth of Puerto Rico on November 2, 2018.

Also, contributions made between the measurement date of the net pension liability and the end of the Municipality's reporting period were recognized as deferred outflow of resources.

The combined contributions required for the Municipality and its participating employees to ERS and System 2000 amounted to \$51.7 million, \$57.1 million and \$30.9 million for the fiscal years ended June 30, 2019, 2018 and 2017, respectively.

However, the ERS did not provide the information needed by the Municipality to record its proportionate share and allocation of the net pension liability, deferred inflows of resources and deferred outflows of resources at June 30, 2018, and the related pension expense for the fiscal year then ended. In addition, ERS did not provide the required disclosure information or information needed for inclusion in the required supplementary information. Accordingly, these financial statements do not contain any adjustments, disclosures or required supplementary information established by GASB 73 as of and for the fiscal year ended June 30, 2018.

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14. FUND BALANCES

As of June 30, 2019, fund balances of governmental funds are comprised of the following:

	<u>General fund</u>	<u>Debt service fund</u>	<u>Capital projects fund</u>	<u>Other governmental funds</u>	<u>Total</u>
Nonspendable:					
Long-term loans receivable	\$ -	\$ -	\$ -	\$ 1,599,762	\$ 1,599,762
Other unrestricted assets	1,262,161	-	-	858,984	2,121,145
Restricted for:					
Operations of federal and state-funded programs:					
General government	2,193,908	-	-	-	2,193,908
Health and welfare	6,086,483	-	-	2,925,985	9,012,468
Economic development	-	-	-	6,559,994	6,559,994
Public Safety	-	-	-	254,415	254,415
Debt service - principal and interests on bonds	-	63,332,596	-	5,849,192	69,181,788
Capital projects - acquisition, construction and improvement of major capital assets	-	-	3,184,550	-	3,184,550
Unrestricted (deficit)	<u>(181,456,575)</u>	<u>-</u>	<u>-</u>	<u>(10,975,033)</u>	<u>(192,431,608)</u>
Total fund balances	<u>\$ (171,914,023)</u>	<u>\$ 63,332,596</u>	<u>\$ 3,184,550</u>	<u>\$ 7,073,299</u>	<u>\$ (98,323,578)</u>

15. NET INVESTMENT IN CAPITAL ASSETS

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

	<u>Governmental activities</u>
Capital assets, net of accumulated depreciation	\$ 555,408,936
Outstanding balance on capital related debt and debt reclassifications	<u>(306,553,522)</u>
Total net investment in capital assets	<u>\$ 248,855,414</u>

16. RISK MANAGEMENT

The Risk Management Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective fair value. After evaluating this information, the Risk Management Division acquires all property and casualty insurance policies for the Municipality. 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 \$614,243, as of June 30, 2019, related to property and casualty claims associated with a self-insurance program that commenced in fiscal year 2013. The Municipality discontinued the self-insurance program effective July 1, 2014.

17. COMMITMENTS

a. Operating Leases

The Municipality leases real property, buildings, vehicles and equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the governmental funds for the fiscal year amounted to approximately \$6.3 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. Other Commitments

At fiscal year-end, the general fund had commitments of approximately \$18.9 million for executory purchases orders or contracts that will be honored during the subsequent year. In addition, at June 30, 2019, the miscellaneous special revenue fund, a non-major fund has an accumulated deficit of \$6.6 million which the general fund is committed to cover in future years as needed.

18. CONTINGENCIES

a. Legal 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.

In addition, the Municipality is currently a defendant in legal proceedings from contractors seeking compensations for damages on alleged breaches of contracts and other claims. The Municipality, under the advice of its legal counselors, has concluded that in case of unfavorable outcomes the aggregate maximum probable loss on these cases would be approximately \$2.4 million.

With respect to the aforementioned legal proceeding and all other pending and threatened litigation, the Municipality has reported liabilities of approximately \$8.5 million at year-end, for possible anticipated unfavorable judgments. These amounts were included in the basic

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 significantly in excess of recorded amounts. The changes in the reserve for claim and judgments for the last two fiscal years are as follows:

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.

b. Federal Funds Administration

The Municipality administers several federal financial assistance programs funded by the Federal Government which are subject to financial and compliance audits. The “*Reports on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance (2 CFR 200 Subpart F)*” for the fiscal year ended June 30, 2019, 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, and that return of funds, if any, would be immaterial.

19. TAX ABATEMENTS

Pursuant to the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*, a tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the Municipality or its citizens.

The Municipality has a *Tax Incentives Program* expiring on June 30, 2030, pursuant to the provisions of Chapter VI, of the *Economic Development Code of San Juan* (the “Program”). The Program aims to encourage the establishment of new businesses and microenterprises, as well as the rehabilitation of old trade centers, the restoration of damaged properties and buildings and, therefore, the creation and retention of jobs in areas of economic backwardness of San Juan.

The Program provides for forty percent (40%) to one hundred percent (100%) tax exemption on property taxes and municipal license taxes available to qualifying businesses complying with the following specific terms and conditions, among others:

- Establishment of a new business in areas of economic backwardness.
- Creation of five (5) or more full-time jobs in businesses located in areas of economic backwardness.

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- Investments of \$50,000 or more in the rehabilitation or restoration of a building located in an area of economic backwardness. Commercial activities located outside the areas established in the Program, can be considered for a tax benefit if they comply with one of the following:
 - a. The person or business that would receive the exemption undertakes to create and maintain no less than seventy-five (75) new jobs within the Municipality during the period corresponding to their tax exemption.
 - b. The person or business that would receive the exemption proposes to build a new building for industrial or commercial use or to rehabilitate an abandoned building.
 - c. The person or business that would receive the exemption intends to establish facilities to fully meet the parking needs of its clientele.
 - d. These are commercial activities with the ability to attract visitors to the area or contribute to improving the aesthetics of the area.

The tax exemptions referred to above are applied against the taxpayer's annual tax liabilities related to property taxes and municipal license taxes. It is required that the Municipality and the taxpayer enter into an agreement specifying all the conditions of the exemptions. The Municipality currently has Job Creation Tax Credit agreements with twenty-six (26) San Juan businesses (taxpayers). During the fiscal year ended June 30, 2019, the amount of property taxes and municipal license taxes forgone under the *Tax Incentives Program* amounted to \$4,261,506 and \$797,932, respectively.

Pursuant to various tax exemption laws, during the fiscal year ended June 30, 2019 the Government of the Commonwealth Puerto Rico granted several exemptions to businesses operating in the manufacturing, tourism, scientific development and other industries, which forgone municipal taxes of San Juan amounting to approximately \$73.5 million.

20. LIQUIDITY AND GOING CONCERN CONSIDERATIONS

Conditions of Puerto Rico Economy

Due to the increasing deterioration of the Island-wide economy during the last two decades, as reflected in the contraction in various industries, the increasing migration of Puerto Rico residents to the United States of America since the events of Hurricane Maria in 2017 the recent high unemployment rate and the increasing population living under poverty standards, the Municipality has suffered significant reductions in its tax revenues, principally in municipal license taxes and construction excise taxes during the last three years.

The Government of the Commonwealth of Puerto Rico has reduced the level of property tax subsidies to all municipalities in Puerto Rico during the last two fiscal years. The impact of this reduction in the Municipality for the fiscal year 2019 amounted to approximately \$21 million of property taxes revenues less reported in the general fund.

In addition, upon the partial adoption of GASB Statement No. 68 as further explained in note 13, the Municipality recorded a net pension liability amounting to approximately \$1.4 billion. These

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factors ultimately caused the Municipality to report a negative net position of governmental activities amounting to \$1.2 billion at June 30, 2019. In addition, the general fund reported an accumulated deficit of \$172.0 million at year-end.

The financial statements have been prepared assuming the Municipality will continue as a going concern. The Municipality is currently evaluating different alternatives to improve its financial condition, results of operations and cash flows. Those measures include, among other things, the implementation of further cost reduction initiatives, the maximization of revenue collections and the evaluation of any available financing opportunities.

The management of the Municipality has taken aggressive fiscal measures to reduce the accumulated deficit of the general fund. These measures have provided a positive variance of \$35.4 million in total expenditures (budgetary basis) in comparison with the respective budgeted expenditures of the general fund for the current fiscal year.

As part of those initiatives, on March 23, 2017, the Municipal Ordinance No. 41, Series 2016-2017, was approved to amend Article 2.01(b) of Chapter II of the *Economic Development Code of San Juan* in order to establish new municipal license tax rates applicable to businesses in San Juan (Note 5). Management expects to maximize its municipal license revenues as a result of this measure. Other streams of municipal revenues are also expected to be maximized as other areas of the *Economic Development Code of San Juan* are reviewed in addition to carry out certain ongoing projects to maximize the collection of sales and usage taxes, property taxes and construction excise taxes, such as the sales and usage amnesty approved through the Municipal Ordinance No. 23, Series 2018-2019.

The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

21. SUBSEQUENT EVENTS

The Municipality evaluated subsequent events through December 18, 2019 the date on which the basic financial statements were available to be issued. There are no material subsequent events that would require adjustments to or disclosures in the accompanying basic financial statements as of and for the year ended June 30, 2019.



REQUIRED SUPPLEMENTARY INFORMATION

Municipality of San Juan
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Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2019

	Budgeted Amounts		Actual amounts	Variance with
	Original	Final	(Budgetary basis) (See Note 1)	Final Budget - Positive (Negative)
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 121,285,153	\$ 121,285,153	\$ 128,366,544	\$ 7,081,391
Municipal license taxes	111,899,243	111,899,243	116,370,246	4,471,003
Sales and usage taxes	54,213,677	54,213,677	59,569,258	5,355,581
Construction excise taxes	12,450,400	12,450,400	16,065,592	3,615,192
Charges for services:				
Medical services	45,670,708	45,670,708	42,218,688	(3,452,020)
Licenses and permits	2,572,531	2,572,531	1,986,760	(585,771)
Fines and penalties	10,257,270	10,257,270	9,965,427	(291,843)
Parking, rent and leases	5,618,493	5,618,493	5,417,676	(200,817)
Recreation and other charges for services	3,643,362	3,643,362	830,386	(2,812,976)
Interests on deposits	3,000,000	3,000,000	530,457	(2,469,543)
Intergovernmental contributions in lieu of taxes				
from Puerto Rico Electric Power Authority	14,539,276	14,539,276	22,902,222	8,362,946
Miscellaneous revenues and other financing sources:				
Proceeds from sale of capital assets	14,567,000	14,567,000	7,200	(14,559,800)
Other miscellaneous revenues	35,990,664	35,990,664	2,871,634	(33,119,030)
Total revenues and transfers from other funds	435,707,777	435,707,777	407,102,090	(28,605,687)
EXPENDITURES, SPECIAL ITEMS AND TRANSFERS:				
Current:				
General government	122,811,425	176,113,613	130,351,146	45,762,467
Public safety	46,541,667	47,624,540	46,370,581	1,253,959
Urban affairs	61,078,578	64,408,892	62,864,938	1,543,954
Culture and recreation	9,399,294	12,131,267	11,568,017	563,250
Health and welfare	163,134,416	103,079,799	105,694,854	(2,615,055)
Urban development	6,763,105	6,507,088	6,216,693	290,395
Economic development	8,672,456	9,443,600	9,315,257	128,343
Education	13,430,007	13,219,701	11,621,208	1,598,493
Debt service:				
Principal	2,704,117	2,021,975	4,261,899	(2,239,924)
Interests	1,172,712	1,157,302	1,609,747	(452,445)
Transfers to other funds	-	-	7,817,821	(7,817,821)
Special item - loss on default from Government Development Bank for Puerto Rico pursuant to Article 501 of Act No. 109 of August 24, 2017, (GDB Restructuring Act) and GDB's Restructuring Support Agreement of May 15, 2017, as amended, and effectively executed on November 29, 2018	-	-	2,661,891	(2,661,891)
Total expenditures and transfers to other funds	435,707,777	435,707,777	400,354,052	35,353,725
REVENUES AND TRANSFERS FROM OTHER FUNDS				
OVER EXPENDITURES AND TRANSFERS TO OTHER FUNDS	\$ -	\$ -	\$ 6,748,038	\$ 6,748,038

Explanation of Differences:

<u>Sources/inflows of resources:</u>				
Actual amounts (budgetary basis) available for appropriation from the budgetary comparison schedule				\$ 407,102,090
Differences - budgetary basis to GAAP:				
Non-budgetary revenues recorded during the year				18,879,450
Proceeds from sale of capital assets are reported as miscellaneous revenues for budgetary purposes but are recorded as other financial resources for GAAP purposes.				(7,200)
Net changes in other assets and deferred inflows of resources:				
Tax, intergovernmental and other receivables				(7,243,351)
Deferred inflows of resources				10,115,985
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 428,846,974
<u>Uses/outflows of resources:</u>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 400,354,052
Differences - budgetary basis to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				20,289,820
Current year encumbrances recorded as expenditures for budgetary purposes				(18,856,293)
Non-budgetary expenditures recorded during current year				16,625,512
Transfers to other governmental funds are expenditures for budgetary purposes but are recorded as other financial uses for GAAP purposes				(7,817,821)
Special items are reported as expenditures for budgetary purposes but are recorded as other expenditures for GAAP purposes				(5,254,604)
Net changes other assets and liabilities:				
Other unrestricted assets				(77,618)
Accounts payable, intergovernmental payables and accrued liabilities				5,111,743
Total expenditures and special items as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 410,374,791

See accompanying notes to budgetary comparison schedule - general fund.

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

*Notes to the Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2019*

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. 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 her 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 Department of Finance and the Office of Management 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.

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

*Notes to the Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2019*

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

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

b. 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, except in the case of municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as revenue in the following budget year. 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, 2019, the Municipality has outstanding encumbrances in the general fund amounting to \$18.9 million.



COMBINING FINANCIAL STATEMENTS

Municipality of San Juan
Commonwealth of Puerto Rico
Other Governmental Funds Descriptions
Fiscal Year Ended June 30, 2019

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, 2019

	Other governmental funds							Total other governmental 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	\$ 490,683	\$ 387,111	\$ 4,471,484	\$ 2,617,996	\$ 2,846,085	\$ 5,787,677	\$ -	\$ 16,601,036
Due from other funds	171,640	54,893	3,332,108	1,405,876	3,054,127	9,316,602	-	17,335,246
Miscellaneous	-	16,832	98,258	65,237	127,741	19,850	18,384	346,302
Loans receivable, net allowance for loan losses	-	-	-	-	1,599,762	-	-	1,599,762
Other unrestricted assets	-	-	48,572	218,476	175,201	70,433	-	512,682
Restricted cash in commercial banks	348,823	583,537	335,807	7,219,231	403,076	5,373,984	457,966	14,722,424
Restricted deposits with governmental bank	-	-	-	-	-	252,540	-	252,540
Total assets	<u>\$ 1,011,146</u>	<u>\$ 1,042,373</u>	<u>\$ 8,286,229</u>	<u>\$ 11,526,816</u>	<u>\$ 8,205,992</u>	<u>\$ 20,821,086</u>	<u>\$ 476,350</u>	<u>\$ 51,369,992</u>
LIABILITIES								
Accounts payable and accrued liabilities	\$ 284,964	\$ 243,554	\$ 3,502,361	\$ 4,117,115	\$ 74,979	\$ 5,369,472	\$ 269,147	\$ 13,861,592
Due to other funds	428,642	403,422	1,657,033	5,497,251	-	9,645,292	-	17,631,640
Total liabilities	<u>713,606</u>	<u>646,976</u>	<u>5,159,394</u>	<u>9,614,366</u>	<u>74,979</u>	<u>15,014,764</u>	<u>269,147</u>	<u>31,493,232</u>
DEFERRED INFLOWS OF RESOURCES								
Intergovernmental grants and contributions	43,125	46,880	240,141	15,323	-	12,455,294	2,698	12,803,461
Total deferred inflows of resources	<u>43,125</u>	<u>46,880</u>	<u>240,141</u>	<u>15,323</u>	<u>-</u>	<u>12,455,294</u>	<u>2,698</u>	<u>12,803,461</u>
FUND BALANCE (DEFICIT)								
Nonspendable	-	16,832	146,830	283,713	1,902,704	90,283	18,384	2,458,746
Restricted	254,415	331,685	2,739,864	5,849,192	6,228,309	-	186,121	15,589,586
Unrestricted	-	-	-	(4,235,778)	-	(6,739,255)	-	(10,975,033)
Total fund balances (deficit)	<u>254,415</u>	<u>348,517</u>	<u>2,886,694</u>	<u>1,897,127</u>	<u>8,131,013</u>	<u>(6,648,972)</u>	<u>204,505</u>	<u>7,073,299</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,011,146</u>	<u>\$ 1,042,373</u>	<u>\$ 8,286,229</u>	<u>\$ 11,526,816</u>	<u>\$ 8,205,992</u>	<u>\$ 20,821,086</u>	<u>\$ 476,350</u>	<u>\$ 51,369,992</u>

**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, 2019*

	Nonmajor special revenue funds						Total nonmajor 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:								
Interests on deposits	\$ -	\$ -	\$ -	\$ 13,312	\$ 429,130	\$ 4,036	\$ -	\$ 446,478
Intergovernmental grants and contributions:								
Federal	1,352,532	4,248,002	46,562,923	51,388,322	-	22,222,280	1,704,040	127,478,099
Local	-	-	-	-	-	951,920	-	951,920
Miscellaneous revenues	-	-	35,299	46,271	-	-	649,982	731,552
Total revenues	<u>1,352,532</u>	<u>4,248,002</u>	<u>46,598,222</u>	<u>51,447,905</u>	<u>429,130</u>	<u>23,178,236</u>	<u>2,354,022</u>	<u>129,608,049</u>
EXPENDITURES:								
General government	-	-	7,940,587	253,847	-	7,397,223	-	15,591,657
Public safety	592,593	-	-	-	-	241,007	-	833,600
Urban affairs	-	-	-	43,355,941	-	734,390	1,925,625	46,015,956
Culture and recreation	-	-	-	236,302	-	12,706	-	249,008
Health and welfare	457,783	-	8,185,250	3,034,571	-	2,329,696	-	14,007,300
Urban development	-	-	-	-	-	23,222	-	23,222
Economic development	-	4,248,002	-	426,939	339,991	74,074	-	5,089,006
Education	-	-	29,321,351	162,999	-	8,286,057	-	37,770,407
Capital outlays	360,290	-	1,160,392	44,482	-	596,217	-	2,161,381
Debt service:								
Principal	-	-	-	5,110,000	-	-	440,945	5,550,945
Interests	-	-	-	181,969	-	-	11,048	193,017
Total expenditures	<u>1,410,666</u>	<u>4,248,002</u>	<u>46,607,580</u>	<u>52,807,050</u>	<u>339,991</u>	<u>19,694,592</u>	<u>2,377,618</u>	<u>127,485,499</u>
EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES	<u>(58,134)</u>	<u>-</u>	<u>(9,358)</u>	<u>(1,359,145)</u>	<u>89,139</u>	<u>3,483,644</u>	<u>(23,596)</u>	<u>2,122,550</u>
OTHER FINANCING SOURCES:								
Transfer from other governmental funds	315,719	74,822	1,747,788	1,113,562	-	4,674,109	-	7,926,000
Transfer to other governmental funds	(37,852)	(2,062)	(77,541)	(107,014)	(1,087,179)	(5,498,934)	-	(6,810,582)
Total other financing sources	<u>277,867</u>	<u>72,760</u>	<u>1,670,247</u>	<u>1,006,548</u>	<u>(1,087,179)</u>	<u>(824,825)</u>	<u>-</u>	<u>1,115,418</u>
SPECIAL ITEMS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,472,048)</u>	<u>-</u>	<u>(12,472,048)</u>
NET INCREASE (DECREASE) IN FUND BALANCES	<u>219,733</u>	<u>72,760</u>	<u>1,660,889</u>	<u>(352,597)</u>	<u>(998,040)</u>	<u>(9,813,229)</u>	<u>(23,596)</u>	<u>(9,234,080)</u>
FUND BALANCES AT BEGINNING OF FISCAL YEAR	<u>34,682</u>	<u>275,757</u>	<u>1,225,805</u>	<u>2,249,724</u>	<u>9,129,053</u>	<u>3,164,257</u>	<u>228,101</u>	<u>16,307,379</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 254,415</u>	<u>\$ 348,517</u>	<u>\$ 2,886,694</u>	<u>\$ 1,897,127</u>	<u>\$ 8,131,013</u>	<u>\$ (6,648,972)</u>	<u>\$ 204,505</u>	<u>\$ 7,073,299</u>

See notes to basic financial statements.

**STATISTICAL SECTION
(UNAUDITED)**

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.

	<u>Pages</u>
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.	89-94
REVENUE CAPACITY (UNAUDITED)	
These schedules contain information to help the reader assess the Municipality's most significant local revenue sources, the property tax and municipal license tax.	95-100
DEBT CAPACITY (UNAUDITED)	
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.	101-103
DEMOGRAPHIC AND ECONOMIC INFORMATION (UNAUDITED)	
These schedules offer demographic and economic indicators to help the reader understand the environment within the Municipality's financial activities take place.	104-105
OPERATING INFORMATION (UNAUDITED)	
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.	106-108

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

	2019	2018	2017, as restated	2016, as restated	2015	2014	2013	2012, as restated	2011	2010
NET POSITION:										
Net investment in capital assets	\$ 248,855,414	\$ 277,075,154	\$ 179,978,277	\$ 288,782,378	\$ 299,649,066	\$ 333,037,011	\$ 385,429,545	\$ 248,446,837	\$ 273,582,683	\$ 252,341,458
Restricted	88,474,437	205,275,713	196,308,452	72,724,042	55,135,650	104,887,271	99,003,313	84,791,476	52,861,932	43,547,515
Unrestricted (deficit)	(1,585,981,648)	(1,795,598,344)	(1,638,894,605)	(448,777,539)	(403,919,176)	(473,956,363)	(534,637,161)	(382,617,676)	(316,242,583)	(309,227,240)
Total	\$ (1,248,651,797)	\$ (1,313,247,477)	\$ (1,262,607,876)	\$ (87,271,119)	\$ (49,134,460)	\$ (36,032,081)	\$ (50,204,303)	\$ (49,379,363)	\$ 10,202,032	\$ (13,338,267)

Note 1: The figures for 2012, 2016 and 2017 are reported above as restated.

Municipality of San Juan
Commonwealth of Puerto Rico
Changes in Net Position – Governmental Activities
Last Ten Fiscal Years

	2019	2018	2017, as restated	2016, as restated	2015	2014	2013	2012, as restated	2011	2010
EXPENSES										
General government	\$ 144,579,397	\$ 175,503,075	\$ 147,201,618	\$ 134,836,176	\$ 130,662,801	\$ 114,752,658	\$ 108,722,883	\$ 151,098,802	\$ 143,281,513	\$ 118,236,295
Public safety	47,813,301	52,683,832	64,893,791	63,862,120	58,695,185	60,840,546	63,404,941	76,462,134	63,909,738	64,184,743
Urban affairs	122,443,684	117,037,863	160,609,536	142,797,176	134,053,425	139,050,823	81,714,664	80,339,038	78,562,145	76,920,317
Culture and recreation	23,492,130	23,749,336	31,911,721	33,279,353	25,297,116	24,639,844	23,910,472	26,167,621	24,001,051	26,318,795
Health and welfare	129,258,354	183,192,860	205,003,983	202,734,332	193,815,634	200,710,231	247,560,973	252,339,989	264,979,765	259,578,631
Urban development	6,251,742	6,999,639	11,757,714	12,770,270	9,677,735	6,881,842	52,387,815	50,644,013	52,231,792	57,456,367
Economic development	17,042,167	18,097,750	21,572,008	22,399,078	22,917,216	22,509,693	24,760,145	21,760,817	26,033,334	25,423,606
Education	56,349,298	53,616,553	61,436,138	59,747,067	57,369,271	53,964,694	19,588,591	20,232,620	20,202,797	21,070,955
Interests on long-term debt	36,251,580	41,257,863	40,953,098	43,019,799	41,545,870	40,907,845	36,571,971	28,312,858	31,800,672	30,305,957
Total expenses	583,481,653	672,138,771	745,339,607	715,445,371	674,034,253	664,258,176	658,622,455	707,357,892	705,002,807	679,495,666
PROGRAM REVENUES										
Charges for services:										
General government	10,270,668	8,210,818	5,849,891	5,754,502	4,059,293	3,203,678	6,519,557	6,728,846	9,720,804	5,814,947
Public safety	688,772	781,160	538,440	288,435	737,787	985,799	356,927	603,075	-	-
Urban affairs	181,333	198,146	60,430	25,834	110,504	40,673	19,886	16,264	-	-
Culture and recreation	1,454,936	1,041,107	1,717,637	1,291,773	1,274,013	1,180,781	2,599,169	2,121,060	-	-
Health and welfare	41,169,626	38,257,612	48,316,090	42,834,504	35,625,896	32,717,879	32,468,300	27,090,065	45,153,219	40,993,473
Urban development	1,948,216	1,521,117	2,385,733	3,185,574	3,206,055	2,315,772	2,092,641	2,744,380	-	-
Economic development	6,869,380	5,413,082	7,435,722	7,002,458	5,217,082	6,006,089	4,511,108	4,886,980	-	-
Education	3,309,578	3,635,005	3,852,749	3,862,687	3,862,512	3,649,766	4,012,482	4,644,102	-	-
Others	-	-	-	-	-	-	-	-	13,425,903	13,608,580
Operating grants and contributions	126,268,638	133,783,867	117,930,035	121,901,173	121,796,597	101,103,403	130,184,145	131,650,087	136,487,833	121,008,309
Capital grants and contributions	2,161,381	1,096,815	1,888,402	1,256,661	3,551,007	12,099,640	5,051,090	3,594,875	6,329,768	4,610,369
Total Governmental Activities	194,322,528	193,938,729	189,975,129	187,403,601	179,440,746	163,303,480	187,815,305	184,079,734	211,117,527	186,035,678
NET EXPENSES	\$ (389,159,125)	\$ (478,200,042)	\$ (555,364,478)	\$ (528,041,770)	\$ (494,593,507)	\$ (500,954,696)	\$ (470,807,150)	\$ (523,278,158)	\$ (493,885,280)	\$ (493,459,988)

Municipality of San Juan
Commonwealth of Puerto Rico
Changes in Net Position – Governmental Activities
Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
GENERAL REVENUES										
Taxes	\$ 411,650,256	\$ 378,449,392	\$ 435,749,974	\$ 449,928,089	\$ 442,518,002	\$ 467,501,978	\$ 427,379,143	\$ 461,948,166	\$ 470,183,990	\$ 467,194,353
Intergovernmental grants and contributions, not restricted to specific programs	22,902,222	22,581,990	26,652,908	30,297,479	30,120,078	40,180,055	38,465,337	40,265,139	38,030,597	30,379,513
Interests on deposit	3,611,786	6,103,168	6,152,410	6,869,655	4,840,942	6,048,121	7,421,454	3,871,392	2,565,220	3,884,103
Miscellaneous revenues	17,610,284	20,425,891	11,105,946	4,403,855	5,029,747	4,300,997	7,850,991	5,250,763	6,645,772	4,963,287
Transfers	-	-	-	-	(1,017,641)	(2,904,232)	(1,967,493)	-	-	-
Total general revenues	455,774,548	427,560,441	479,661,238	491,499,078	481,491,128	515,126,919	479,149,432	511,335,460	517,425,579	506,421,256
Special items	(2,019,743)	-	-	-	-	-	-	-	-	-
NET INCREASE/(DECREASE) IN NET POSITION	\$ 64,595,680	\$ (50,639,601)	\$ (75,703,240)	\$ (36,542,692)	\$ (13,405,986)	\$ 14,056,106	\$ 7,602,921	\$ (12,175,983)	\$ 23,338,701	\$ 12,961,268

(concluded)

Municipality of San Juan
Commonwealth of Puerto Rico
Fund Balance - Governmental Funds
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016, as restated</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012, as restated</u>	<u>2011</u>	<u>2010</u>
General Fund:										
Nonspendable	\$ 1,262,161	\$ 931,448	\$ 1,503,173	\$ 180,478	\$ 176,327	\$ 8,197,061	\$ 14,126	\$ 20,554	\$ 15,619	\$ 7,517
Restricted	8,280,391	23,440,846	11,580,602	4,990,930	8,332,507	14,076,266	95,760	2,645	3,297	3,296
Committed	-	-	-	-	-	-	-	-	245	5,118
Unrestricted	(181,456,575)	(207,403,315)	(116,085,891)	(5,094,403)	28,529,493	(1,098,271)	(99,182)	(127,761)	(35,345)	(34,370)
Total general fund	\$ (171,914,023)	\$ (183,031,021)	\$ (103,002,116)	\$ 77,005	\$ 37,038,327	\$ 21,175,056	\$ 10,704	\$ (104,562)	\$ (16,184)	\$ (18,439)
All other governmental funds:										
Nonspendable	\$ 2,458,746	\$ 2,686,781	\$ 4,323,125	\$ 4,340,553	\$ 4,739,832	\$ 5,530,872	\$ -	\$ 10,418	\$ 10,911	\$ 11,404
Restricted	82,106,732	180,649,722	174,322,346	151,233,263	195,326,010	176,593,758	202,953	82,238	56,888	48,204
Committed	-	-	-	-	-	-	-	110,949	64,147	63,912
Unrestricted	(10,975,033)	-	(11,910,436)	(2,061,482)	(1,833,072)	(15,547,020)	(16,243)	(7,645)	(9,287)	(5,363)
Total all other governmental funds	\$ 73,590,445	\$ 183,336,503	\$ 166,735,035	\$ 153,512,334	\$ 198,232,770	\$ 166,577,610	\$ 186,710	\$ 195,960	\$ 122,659	\$ 118,157

Municipality of San Juan
Commonwealth of Puerto Rico

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

	2019	2018	2017	2016, as restated	2015	2014	2013	2012, as restated	2011	2010
REVENUES										
Property taxes	\$ 220,881	\$ 201,070	\$ 230,129	\$ 246,409	\$ 223,889	\$ 241,423	\$ 234,752	\$ 260,217	\$ 237,819	\$ 238,690
Municipal license taxes	116,818	112,287	111,899	116,178	133,669	121,434	118,402	125,998	153,975	157,380
Sales and usage taxes	72,294	62,304	64,699	64,440	64,657	61,323	58,033	56,876	56,405	54,487
Construction excise taxes	16,065	7,657	15,495	25,307	33,970	22,868	13,640	18,858	21,986	16,637
Charges for services	66,539	59,106	70,156	63,043	54,186	50,048	50,808	48,834	68,300	59,533
Interests on deposits	3,612	6,103	6,152	6,870	4,841	6,048	1,360	3,871	2,565	3,884
Intergovernmental grants and contributions:										
Federal	127,478	133,454	118,952	121,460	118,721	111,375	129,284	133,299	142,589	124,905
Local	23,854	24,254	28,819	32,318	36,934	41,534	38,648	42,211	38,259	31,979
Miscellaneous revenues	17,605	20,426	4,384	4,404	5,030	4,301	13,049	5,251	6,645	4,963
Total revenues	665,146	626,661	650,685	680,429	675,897	660,354	657,976	695,415	728,543	692,458
EXPENDITURES										
General government	149,841	185,022	137,544	129,625	122,986	116,716	95,492	144,371	150,800	138,345
Public safety	47,490	51,353	61,865	60,158	56,912	56,942	63,513	64,907	61,306	60,293
Urban affairs	110,079	102,784	123,547	127,181	122,631	127,033	62,176	78,672	67,800	74,715
Culture and recreation	14,225	11,630	19,156	20,599	13,475	15,368	15,578	16,558	16,213	18,371
Health and welfare	126,242	176,576	198,560	195,353	186,412	196,816	241,142	246,398	259,064	253,358
Urban development	6,464	6,723	10,731	10,666	8,702	7,198	52,054	50,597	51,826	48,624
Economic development	15,376	15,053	17,362	17,336	16,991	16,863	19,362	15,231	20,523	19,956
Education	53,259	51,266	59,169	57,712	55,461	52,609	18,032	18,522	18,996	19,909
Capital outlays	7,209	5,060	29,665	45,793	33,456	29,168	61,888	55,834	39,838	48,527
Debt service:										
Principal	37,136	49,513	55,596	57,758	58,149	89,572	70,645	58,230	55,759	50,126
Interests	36,251	41,258	40,953	43,020	41,546	44,044	33,842	28,313	31,801	30,306
Total expenditures	603,572	696,238	754,148	765,201	716,721	752,329	733,724	777,633	773,926	762,530
EXCESS OF EXPENDITURES OVER REVENUES	61,574	(69,577)	(103,463)	(84,772)	(40,824)	(91,975)	(75,748)	(82,218)	(45,383)	(70,072)

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016, as restated</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
OTHER FINANCING SOURCES (USES):										
Proceeds on sale of capital assets	7	-	11,959	4,375	-	-	-	-	-	-
Transfers from governmental funds	8,918	10,627	31,063	34,530	37,494	24,102	7,503	15,826	-	6,428
Transfers to governmental funds	(8,918)	(10,627)	(31,063)	(34,530)	(37,494)	(24,102)	(7,503)	(15,826)	-	(6,428)
Transfers to International Center	-	-	-	(2,359)	(1,018)	(2,904)	(1,967)	-	-	-
Proceeds from issuance of bonds	-	-	-	-	-	-	-	126,395	26,738	63,035
Proceeds from issuance of notes	-	-	-	-	89,360	85,220	183,730	-	25,386	-
Total	<u>7</u>	<u>-</u>	<u>11,959</u>	<u>2,016</u>	<u>88,342</u>	<u>82,316</u>	<u>181,763</u>	<u>126,395</u>	<u>52,124</u>	<u>63,035</u>
SPECIAL ITEM	<u>(154,061)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u>(92,480)</u>	<u>(69,577)</u>	<u>(91,504)</u>	<u>(82,756)</u>	<u>47,518</u>	<u>(9,659)</u>	<u>106,016</u>	<u>44,177</u>	<u>6,741</u>	<u>(7,037)</u>
Debt service as a percentage of non-capital expenditures	12.3%	13.1%	13.2%	14.0%	14.6%	18.5%	18.4%	13.6%	11.9%	11.3%

(Concluded)

Note 1: The municipality licenses tax rates were substantially revised in 2010 resulting in an increase of 10% of this tax revenue from 2010 from prior year.

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.

Note 5: Certain operational changes were made in 2014, which affected the comparability of expenditures by function when compared to previous years.

Municipality of San Juan
Commonwealth of Puerto Rico
Property Tax Levies and Collections (Unaudited)
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
2019 ₁	\$ 263,214,542	\$ 159,769,657	60.70%	\$ 64,184,727	\$ 223,954,384	85.08%
2018 ₁	263,214,542	159,769,657	60.70%	64,184,727	223,954,384	85.08%
2017 ₁	263,214,542	159,769,657	60.70%	64,184,727	223,954,384	85.08%
2016 ₁	263,214,542	159,769,657	60.70%	64,184,727	223,954,384	85.08%
2015 ₁	263,214,542	159,769,657	60.70%	64,184,727	223,954,384	85.08%
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%

Source: Municipal Revenue Collection Center through 2013.

Note 1: The unaudited figures for 2014 through 2019 disclosed above were estimated since actual information was not readily available and could not be obtained from the Municipal Revenue Collection Center.

Municipality of San Juan
Commonwealth of Puerto Rico
Assessed Value of Taxable Property (Unaudited)
Last Ten Fiscal Years

Fiscal Year	Gross Valuation	Exempted Value	Exonerated Value	Net Assessed Value	Tax Effective Rate
2019	\$ 26,627,930,000	\$ 3,407,150,005	\$ 8,889,249,422	\$ 14,331,530,573	8.15%
2018	26,627,930,000	3,407,150,005	8,889,249,422	14,331,530,573	8.15%
2017	26,627,930,000	3,407,150,005	8,889,249,422	14,331,530,573	8.15%
2016	26,627,930,000	3,407,150,005	8,889,249,422	14,331,530,573	8.15%
2015	26,627,930,000	3,407,150,005	8,889,249,422	14,331,530,573	8.15%
2014	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 ₁	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%

Source: Municipal Revenue Collection Center through 2014.

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 unaudited figures for 2015 through 2019 disclosed above were estimated since actual information was not readily available and could not be obtained from the Municipal Revenue Collection Center.

Municipality of San Juan
Commonwealth of Puerto Rico
Property Tax Rates (Unaudited)
Last Ten Fiscal Years

Real Property				
Fiscal Year	General Purposes	Debt Services	Government of Puerto Rico	Total
2019	6.00%	3.50%	1.03%	10.53%
2018	6.00%	3.50%	1.03%	10.53%
2017	6.00%	3.50%	1.03%	10.53%
2016	6.00%	3.50%	1.03%	10.53%
2015	6.00%	3.50%	1.03%	10.53%
2014	6.00%	3.50%	1.03%	10.53%
2013	6.00%	2.00%	1.03%	9.03%
2012	6.00%	2.00%	1.03%	9.03%
2011	6.00%	2.00%	1.03%	9.03%
2010	6.00%	2.00%	1.03%	9.03%

Personal Property				
Fiscal Year	General Purposes	Debt Services	Government of Puerto Rico	Total
2019	4.00%	3.50%	1.03%	8.53%
2018	4.00%	3.50%	1.03%	8.53%
2017	4.00%	3.50%	1.03%	8.53%
2016	4.00%	3.50%	1.03%	8.53%
2015	4.00%	3.50%	1.03%	8.53%
2014	4.00%	3.50%	1.03%	8.53%
2013	4.00%	2.00%	1.03%	7.03%
2012	4.00%	2.00%	1.03%	7.03%
2011	4.00%	2.00%	1.03%	7.03%
2010	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 (Unaudited)
Last Ten Fiscal Years

2019				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	23,403	89.58%	\$ 3,656,953	14.65%
\$1,000 - \$100,000	2,687	10.29%	14,161,658	56.75%
Over \$100,000	35	0.13%	7,137,386	28.60%
	<u>26,125</u>	<u>100.00%</u>	<u>\$ 24,955,997</u>	<u>100.00%</u>
2018				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	21,919	90.09%	\$ 3,486,322	16.60%
\$1,000 - \$100,000	2,382	9.79%	11,996,560	57.13%
Over \$100,000	29	0.12%	5,517,419	26.27%
	<u>24,330</u>	<u>100.00%</u>	<u>\$ 21,000,301</u>	<u>100.00%</u>
2017				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	23,455	90.68%	\$ 3,649,298	18.67%
\$1,000 - \$100,000	2,390	9.24%	12,030,475	61.55%
Over \$100,000	22	0.08%	3,865,476	19.78%
	<u>25,867</u>	<u>100.00%</u>	<u>\$ 19,545,249</u>	<u>100.00%</u>
2016				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	23,042	90.39%	\$ 3,621,874	16.75%
\$1,000 - \$100,000	2,422	9.50%	12,281,331	56.77%
Over \$100,000	29	0.11%	5,728,496	26.48%
	<u>25,493</u>	<u>100.00%</u>	<u>\$ 21,631,701</u>	<u>100.00%</u>
2015				
Income (In thousands)	Number of Filers	Percentage of Total	Total Income (In thousands)	Percentage of Total
\$5 - \$1,000	22,309	89.72%	\$ 3,528,570	13.59%
\$1,000 - \$100,000	2,522	10.14%	14,541,178	55.99%
Over \$100,000	34	0.14%	7,901,534	30.42%
	<u>24,865</u>	<u>100.00%</u>	<u>\$ 25,971,282</u>	<u>100.00%</u>

(Continued)

Municipality of San Juan
Commonwealth of Puerto Rico
Municipal Licenses Tax Filers by Income Level (Unaudited)
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	24.35%
	<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	64.52%
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	90.64%	\$ 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	18.53%
	<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>

(Concluded)

Source: Finance Department of the Municipality of San Juan.

Municipality of San Juan
Commonwealth of Puerto Rico
Municipal Licenses Tax Rates (Unaudited)
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
2019	1.50%	1.00%	0.20%	0.50%	0.30%
2018	1.50%	1.00%	0.20%	0.50%	0.30%
2017	1.50%	1.00%	0.20%	0.50%	0.30%
2016	1.50%	1.00%	0.20%	0.50%	0.30%
2015	1.50%	1.00%	0.20%	0.50%	0.30%
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%

Source: Finance Department of the Municipality of San Juan.

Note: The figures for 2018 and 2019 disclosed above 0.20% is for businesses with annual revenues ranging from \$100,000 to \$300,000 and 0.50% for businesses with annual revenues over \$300,000.

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

*Ratios of Outstanding Debt by Type (in Thousands), Except Per Capita Amount (Unaudited)
Last Ten Fiscal Years*

	2019	2018	2017	2016 as restated	2015	2014	2013	2012	2011	2010
(in thousands)										
Bonds payable	\$ 202,507	\$ 295,292	\$ 326,764	\$ 362,465	\$ 399,783	\$ 436,591	\$ 479,437	\$ 479,437	\$ 394,138	\$ 410,636
Bonds anticipation notes	-	-	-	-	-	-	-	-	1,873	-
Revenue bonds payable	50,432	51,252	52,012	52,712	-	-	-	-	-	-
Mortgage payable	-	440	1,057	1,624	2,144	2,382	3,062	3,465	3,836	4,177
Notes payable	331,583	440,218	463,469	485,436	506,193	442,056	401,170	213,966	228,856	217,525
Total	\$ 584,522	\$ 787,202	\$ 843,302	\$ 902,237	\$ 908,120	\$ 881,029	\$ 883,669	\$ 696,868	\$ 628,703	\$ 632,338
Percentage of personal income	8.29%	12.46%	13.35%	13.12%	14.05%	13.63%	12.84%	10.97%	9.92%	4.71%
Total long-term debt per capita ¹	\$ 1,749	\$ 2,334	\$ 2,410	\$ 2,526	\$ 2,491	\$ 2,382	\$ 2,235	\$ 1,788	\$ 1,590	\$ 1,478
Bonds payable per capita ¹	\$ 606	\$ 875	\$ 934	\$ 1,015	\$ 1,096	\$ 1,180	\$ 1,213	\$ 1,230	\$ 997	\$ 960
Percentage of bonds payable of net assessed value of property	1.41%	2.06%	2.28%	2.53%	2.79%	2.57%	2.82%	2.77%	2.29%	2.49%

Note 1: Population data can be found in the Schedule of Demographic and Economic Statistics.

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

Fiscal Year	Population ₂	In thousands				Percentage of Personal Income	Percentage of Assessed Value of Taxable Property	Bonded Debt Per Capital ₁
		Net Assessed Value ₄	General Obligation Bonds	Less: GO's Debt Service Funds	Total Bonded Debt			
2019	334,109	\$ 14,331,530	\$ 202,507	\$ 63,994	\$ 138,513	1.96%	0.97%	\$ 415
2018	337,288	14,331,530	295,291	63,993	231,298	3.44%	1.61%	686
2017	349,987	14,331,530	326,764	51,519	275,245	4.10%	1.92%	786
2016	357,130	14,331,530	362,465	48,119	314,346	4.57%	2.19%	880
2015	364,622	14,331,530	399,783	39,291	360,492	5.58%	25.2%	989
2014	369,938	14,331,530	436,591	70,965	365,626	5.65%	25.5%	988
2013	395,326	17,020,802	479,437	63,712	415,725	6.04%	24.4%	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

Source: Municipal Revenue Collection Center through 2014.

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 figures for 2015 through 2019 disclosed above were estimated since actual information was not readily available and could not be obtained from the Municipal Revenue Collection Center.

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

Legal Debt Margin Calculation as of June 30, 2019:	
Assessed Value of Taxable Property	\$ 26,627,930
Legal debt limit - 10% of assessed value of taxable property	<u>\$ 2,662,793</u>
Debt applicable to limit:	
General obligations bonds and notes	534,090
Less: GO's Debt Service Fund Balance	(63,332)
Less: Other adjustments, including adjustments made pursuant to Acts No. 18 and No. 19 of January 24, 2014, as determined by GDB.	<u>(2,614,701)</u>
Total net debt applicable to limit, and other adjustments	<u>(2,143,943)</u>
Legal debt margin	<u>\$ 518,850</u>

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Legal debt limit ¹	\$ 2,662,793	\$ 2,662,793	\$ 2,662,793	\$ 2,662,793	\$ 2,662,793	\$ 2,662,793	\$ 3,143,881	\$ 2,474,638	\$ 2,515,932	\$ 2,769,847
Total net debt applicable to limit	<u>(2,143,943)</u>	<u>(2,455,378)</u>	<u>(937,559)</u>	<u>(2,584,068)</u>	<u>(2,473,483)</u>	<u>(365,626)</u>	<u>(845,119)</u>	<u>(413,388)</u>	<u>(358,675)</u>	<u>(391,009)</u>
Legal debt margin	<u>\$ 518,850</u>	<u>\$ 207,415</u>	<u>\$ 1,725,234</u>	<u>\$ 78,725</u>	<u>\$ 189,310</u>	<u>\$ 2,297,167</u>	<u>\$ 2,298,762</u>	<u>\$ 2,061,250</u>	<u>\$ 2,157,257</u>	<u>\$ 2,378,838</u>
Total net debt applicable to the limit as a percentage of debt limit	80.51%	92.21%	35.21%	97.04%	92.89%	13.73%	26.88%	16.70%	14.26%	14.12%

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.

Note: The total legal debt margin of \$78.7 million as of June 30, 2016 was obtained from GDB as confirmed through letter dated July 1, 2016 issued by its Municipal Financing Division.

Note: The figures disclosed above for the assessed values of taxable property as well as the adjustments made to the net debt applicable to the limit for the years 2013 through 2019 were estimated since actual information was not readily available and could not be obtained from the Municipal Revenue Collection Center and the Government Development Bank for Puerto Rico.

Note: The total legal debt margin of \$1,725,234 as of June 30, 2017 was obtained from GDB as confirmed through letter dated March 13, 2018 issued by its Municipal Financing Division.

Note: The total legal debt margin of \$207,415 as of June 30, 2018 was obtained from AAFAF as confirmed through letter dated August 23, 2018 issued by its Municipal Financing Division.

Note: The total legal debt margin of \$518,850 as of June 30, 2019 was obtained from AAFAF as confirmed through letter dated October 8, 2019 issued by its Municipal Financing Division.

Municipality of San Juan
Commonwealth of Puerto Rico
Demographic and Economic Statistics (Unaudited)
Last Ten Fiscal Years

Fiscal Year	Population₁	Personal Income	Per Capital₅	Inflation Rate_{2 - 5}	Employment₃	Unemployment Rate₃
2019	334,109	\$ 7,049,699,900	\$ 21,100	1.18%	128,621	5.20%
2018	337,288	6,088,048,400	18,050	1.40%	136,500	6.00%
2017	349,987	6,317,265,350	18,050	1.40%	131,661	5.70%
2016	357,130	6,877,252,410	19,257	1.60%	138,300	6.80%
2015 ₄	364,622	6,465,477,304	17,732	0.90%	138,700	7.70%
2014 ₄	369,938	6,465,776,364	17,478	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%

- 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 and 2015 was estimated.
5. Information for 2019 was estimated.

2019 Population Density	
Square Miles	Population Per Square Mile
47.8	6,990

Municipality of San Juan
Commonwealth of Puerto Rico
Construction and Bank Deposits (Unaudited)
Last Ten Fiscal Years

Calendar year	Commercial Construction		Residential Construction		Bank Deposits₂
	Square feet of site approved₁	Value in (thousands of dollars)	Square feet of site approved₁	Value in (thousands of dollars)	Value in (thousands of dollars)
2019	2,633,875	\$ 72,225	314,659	\$ 8,540	\$ 34,865,109
2018	1,521,199	41,522	594,448	19,838	31,104,682
2017 ₃	5,746,758	441,246	286,125	45,428	27,806,243
2016	5,746,758	441,246	286,125	45,428	25,293,439
2015	2,664,594	121,015	676,884	43,396	26,627,488
2014	2,093,196	181,810	422,387	22,223	25,635,425
2013	6,733,092	172,591	2,360,150	27,106	29,645,189
2012	2,916,665	320,833	1,641,086	98,465	30,454,358
2011	594,548	65,400	726,649	43,599	29,818,727
2010	435,135	51,736	625,596	37,536	32,599,395

- Notes:
1. Office of Permits of the Municipality of San Juan.
 2. Commissioner of Financial Institutions.
 3. The figures for 2017 disclosed above were estimated since actual information was not readily available except for Bank Deposits.

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

*Number of Regular Employees by Function (Unaudited)
Last Ten Fiscal Years*

	Fiscal Year									
	2019	2018	2017	2016	2015	2014	2013	2012₂	2011	2010
Function										
General government	297	320	341	346	516	469	438	517	517	559
Public safety	891	957	938	1,105	1,085	1,140	1,176	1,389	1,389	1,349
Urban affairs	770	857	899	832	1,049	1,076	924	1,092	1,092	1,208
Culture and recreation	139	152	166	157	195	221	258	305	305	332
Health and welfare	938	999	1,055	1,094	1,568	2,346	2,237	2,643	2,643	2,642
Urban development	165	174	207	112	158	272	42	50	50	40
Economic development	187	198	230	217	236	254	272	321	321	405
Education	544	594	613	656	1,089	128	113	133	133	144
Total	3,931	4,251	4,449	4,519	5,896	5,906	5,460	6,450	6,450	6,679

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 changed 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 2: On April 4, 2013 Law No. 3 as enacted to amend the provision of Law No. 447 of 1951 known 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 (Unaudited)
Last Ten Fiscal Years

Function	Fiscal Year									
	2019	2018	2017	2016	2015_s	2014_s	2013	2012	2011	2010
Public safety										
Police officers	738	791	834	918	903	983	1,009	1,141	1,141	1,135
Police trainings _s	56	-	8	8	46	46	46	100	100	158
Emergency trainings _s	65	143	92	92	52	35	242	297	297	220
Urban affairs										
Walkside construction (lineal ft.)	795	807	807	804	804	23,166	-	46,847	46,847	28,510
Waste disposal collected (ton.)	171,604	254,960	254,960	202,184	200,115	210,245	205,489	221,187	221,187	230,462
Culture and recreation										
Cultural events _s	106	161	141	141	141	141	141	119	119	72
Attendances _s	954,486	289,180	n/a	n/a	n/a	n/a	n/a	n/a	n/a	243,687
Enrollment on sport trainings _s	66,833	61,325	61,325	61,325	61,325	24,946	n/a	n/a	n/a	145,230
Health and welfare										
Hospital admissions	2,754	5,722	5,592	5,592	4,977	5,114	4,831	4,359	4,359	4,439
Average length of stay	6	6	6	6	6	7	6	7	7	7
Welfare center participants	5,499	7,476	10,511	10,511	10,511	15,364	18,452	19,697	19,697	9,186
Head Start enrollment	2,640	3,584	3,421	3,833	3,625	3,725	3,914	4,399	4,399	4,431
Urban development										
Permits and endorsements _s	282	1,003	3,800	3,800	3,800	3,800	535	5,639	5,639	4,630
Economic development										
Commercial spaces leased	196	202	247	261	230	211	171	220	220	215
Education										
College Enrollment	1,341	1,637	1,219	1,693	1,606	1,633	1,570	1,720	1,720	1,792
High School Enrollment	575	570	207	189	296	326	267	284	284	242
Elementary School Enrollment	298	303	633	633	406	317	401	190	190	158

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 through 2017 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) (Unaudited)
Last Ten Fiscal Years

Function	Fiscal Year									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Public safety										
Police:										
Stations and substations ³	18	16	19	19	19	14	24	27	27	27
Patrol units ³	152	304	1,201	1,201	1,198	1,198	601	419	419	4,120
Emergency:										
Emergency units	88	93	88	95	98	98	97	83	83	83
Urban affairs										
Highways and streets (lineal miles) ³	975	1,027	1,027	1,027	1,027	1,027	1,231	1,231	1,231	1,231
Public works units ⁴	1,354	1,354	1,354	1,354	1,354	1,354	1,300	1,425	1,425	1,382
Culture and recreation										
Parks ⁴	246	246	246	246	246	330	512	512	512	365
Culture centers ⁴	6	6	6	6	6	6	6	5	5	4
Health and welfare										
Hospital	1	1	1	1	1	2	2	2	2	2
Medical centers	8	8	10	11	11	10	11	9	9	9
Mobile units	1	4	4	4	4	4	5	8	8	8
Community centers ⁴	24	24	24	24	26	30	-	43	43	38
Head Start centers	75	59	70	78	71	76	74	75	75	75
Urban development										
Urban centers ⁴	4	4	4	4	4	4	4	4	4	4
Economic development										
Commercial spaces	287	284	284	307	274	258	231	251	251	251
Main event venues ⁴	31	31	31	31	31	31	31	31	31	15
Education										
College	1	1	1	1	1	1	1	1	1	1
High School	3	1	1	1	1	1	1	1	1	1
Elementary School	1	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.

Note 3: The figures for 2014 through 2017 disclosed above were estimated since actual information was not readily available.

Note 4: The figures for 2019 disclosed above were estimated since actual information was not readily available.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Municipality of San Juan
Commonwealth of Puerto Rico
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended, June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
Department of Agriculture (USDA)				
<i>Pass-through from Commonwealth of Puerto Rico Department of Education</i>				
<i>Child Nutrition Cluster</i>				
National School Lunch Program	10.555	660-42-7034	\$ 546,423	\$ -
<i>Child Nutrition Cluster Total</i>			<u>546,423</u>	<u>-</u>
Child and Adult Care Food Program (CACFP)	10.558	CCC-047	2,796,159	-
<i>Pass-through from the Department of Natural and Environmental Resources</i>				
US Forest Service - Urban & Community Forestry Assistance	10.664		2,125	-
Total Department of Agriculture (USDA)			<u>3,344,707</u>	<u>-</u>
Department of Defense				
Army Medical Research and Materiel Command - Phase 2 study of a Live Attenuated Measles Virus-Vectored Chikungunya Vaccine in Previously Unexposed	12.420	W81XWH-18-2-0054 Subaward S-11031-01	77,365	-
Total Department of Defense			<u>77,365</u>	<u>-</u>
Department of Housing and Urban Development (HUD)				
<i>Direct programs</i>				
<i>Community Development Block Grant - Entitlement Grants Cluster</i>				
Community Development Block Grants/Entitle Grants	14.218		7,346,635	375,446
<i>Community Development Block Grant - Entitlement Grants Cluster Total</i>			<u>7,346,635</u>	<u>375,446</u>
Emergency Shelter Grants Program	14.231		-	-
			571,336	-
Supportive Housing Program	14.235		1,055,143	-
Shelter Plus Care	14.238		649,268	-
HOME Investment Partnership Programs	14.239		2,678,191	-
Housing Opportunities for Persons with AIDS	14.241		5,089,396	1,643,820
HUD-Hope 3			17,438	-
<i>Section 8 Project-Based Cluster</i>				
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249		845,036	-
Lower Income Housing Assistant Program-Section 8 Moderate Rehabilitation	14.856		3,191,821	-
<i>Section 8 Project-Based Cluster Total</i>			<u>4,036,857</u>	<u>-</u>
ARRA-Homeless prevention and Rapid Re-Housing Program	14.257		540	-
<i>Housing Voucher Cluster</i>				
Section 8 Housing Choice Vouchers	14.871		29,135,563	-
<i>Housing Voucher Cluster Total</i>			<u>29,135,563</u>	<u>-</u>
Family Self Sufficiency Program Coordinator Grant	14.896		25,101	-
<i>Pass-through from Commonwealth of Puerto Rico Families and Child Administration</i>				
Emergency Solution Grant (ESG)	14.231	2017-E-16-DC-72-0001, 2017-E-13-DC-72-001 2018-E-17-DC72-001	440,600	-
<i>Pass-through from Commonwealth of Puerto Rico/Department of Health</i>				
HOPWA - Project Sponsor	14.241	PR-H-18-F-999	1,842,538	1,201,873
<i>Pass-through from Commonwealth of Puerto Rico Municipal Affairs Office</i>				
Neighborhood Stabilization Program (NSP)	14.256	N/A	25,453	-
Total Department of Housing & Urban Development (HUD)			<u>52,914,059</u>	<u>3,221,139</u>

(continued)

***Municipality of San Juan
Commonwealth of Puerto Rico
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended, June 30, 2019***

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
Department of Justice (DOJ)				
<i>Direct programs</i>				
U.S. Marshall Services- PR Fugitive Task Force	16.000		15,232	-
Drug Free Communities Support Programs Grants	16.729		778,766	-
COPS Hiring Program	16.710		35,614	-
<i>Pass-through from Commonwealth of Puerto Rico Department of Justice</i>				
<i>Victims of Crime Assistance</i>		2017-VA-GX-0038 2016-VA-GX-0077	50,032	-
Crime Victim Assistant	16.575	2017-VA-0VDSJ-01	437,311	-
Total Department of Justice (DOJ)			1,316,955	-
Department of Labor (DOL)				
<i>Direct Program</i>				
Trade Adjustment Assistance Community College & Career Training	17.245		303	-
<i>Pass-through from Commonwealth of Puerto Rico Right to Employment Administration</i>				
Workforce Innovation & Opportunity Act (WIOA)			291	-
Workforce Innovation & Opportunity Act (WIOA)				-
<i>Workforce Innovation & Opportunity Act (WIOA) Cluster</i>				
Workforce Innovation & Opportunity Act (WIOA)	17.278	2017-000034 A B 2018-000059 A	1,231,553	-
Workforce Innovation & Opportunity Act (WIOA)	17.259	2018-000058 2017-000034 A B	1,409,565	-
Workforce Innovation & Opportunity Act (WIOA)	17.258	2018-000059 A	1,516,526	-
<i>Workforce Innovation & Opportunity Act (WIOA) Cluster Total</i>			4,157,644	-
WIOA - Egrant - Grant for Dislocated Workers	17.277	2018-000078A	91,826	-
Total Department of Labor (DOL)			4,250,064	-
Department of Transportation				
<i>Direct programs</i>				
<i>Federal Transit Cluster</i>				
Federal Transit Formula Grant	20.507		442,671	-
<i>Federal Transit Cluster Total</i>			442,671	-
<i>Pass-through from Commonwealth of Puerto Rico/Traffic Safety Commission</i>				
<i>Highway Safety Cluster</i>				
Speed Enforcement (Radars)	20.600	2019-000108	8,235	-
Drugs, Tobacco & Firearms	20.600	2019-000158	58,852	-
<i>Highway Safety Cluster Total</i>			67,087	-
Total Department of Transportation (DOT)			509,758	-
Department of Energy				
<i>Direct program</i>				
ARRA Energy Efficiency and Conservation Block Grant	81.128		5,163	-
Total Department of Energy			5,163	-

(continued)

Municipality of San Juan
Commonwealth of Puerto Rico
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended, June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
Department of Education (ED)				
<i>Direct programs</i>				
<i>Student Financial Assistance Cluster</i>				
Federal Pell Grant Program (PELL)	84.063		5,364,107	-
Supplementary Educational Opportunity Grants	84.007		101,647	-
Federal Work-Study Program (FWS)	84.033		105,541	-
<i>Student Financial Assistance Cluster Total</i>			<u>5,571,295</u>	-
<i>TRIO Cluster</i>				
TRIO Student Support Services	84.042		382,755	-
<i>TRIO Cluster</i>			<u>382,755</u>	-
Total Department of Education (ED)			<u>5,954,050</u>	-
Department of Health and Human Services (HHS)				
<i>Direct programs</i>				
Head Start	93.600		30,204,798	-
HHS--Early Head Start Expansion			1,165	-
Head Start Disaster Assistance	93.356		280,751	-
HIV Emergency Relief Project Grants	93.914		11,112,834	6,974,953
<i>Health Center Program Cluster</i>				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care For The Homeless, And Public Housing Primary Care)	93.224		1,100,464	-
<i>Health Center Program Cluster Total</i>			<u>1,100,464</u>	-
<i>Pass-through from Puerto Rico Office for Socioeconomic and Community Development</i>				
<i>477 Cluster</i>				
Temporary Assistance for Needy Families	93.558		3,758	-
Community Services Block Grant	93.569		3,411,877	-
<i>477 Cluster Total</i>			<u>3,415,635</u>	-
<i>Pass-through from Commonwealth of Puerto Rico Governor's Office</i>				
<i>Aging Cluster</i>				
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	TIT III-E	1,123,422	-
<i>Aging Cluster Total</i>			<u>1,123,422</u>	-
Vaccines for Children	93.268		11,990	-
<i>Pass-through from National Health Institute-WESTAT</i>				
National Health Institute-WESTAT	93.990	HHSN275201300003C	41,237	-
<i>Pass-through from Commonwealth of Puerto Rico Department of Education</i>				
Risk Reduction	93.941	2019-DSO244	125,575	-
<i>Pass-through from Harvard College</i>				
Child Health and Human Development Extramural Research	93.865	HHSN261200800001E	874,583	-
Mitochondrial Determinants of Metabolic Disease in HIV-Infected Children	93.361		27,775	-
Total Department of Health & Human Services (HHS)			<u>48,320,229</u>	<u>6,974,953</u>
Corporation for National and Community Service				
<i>Direct Programs</i>				
Retired and Senior Volunteer Program	94.002		64,372	-
<i>Foster Grandparents/Senior Companion Cluster</i>				
Foster Grandparent Program	94.011		338,830	-
<i>Foster Grandparents/Senior Companion Cluster Total</i>			<u>338,830</u>	-
Total Corporation for National and Community Service			<u>403,202</u>	-

(continued)

Municipality of San Juan
Commonwealth of Puerto Rico
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended, June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Expenditures to Subrecipients
Department of Homeland Security				
<i>Pass-through from Commonwealth of Puerto Rico Governor's Office</i>				
Federal Emergency Management Agency (FEMA)	97.036			
FEMA - Storm Jeanne			-	-
Pre-Disaster Mitigation			998	-
Irma Disaster DR-4336			-	-
Maria Disaster DR-4339			11,408,902	-
Port Security Grant Program	97.056		172,765	-
Homeland Security Grant Program	97.067	EMW-2016-SS-00031-S01	23	-
State Homeland Security Program PAI	97.067	EMW-2015-SS-00036-S01	132,696	-
Total Department of Homeland Security			11,715,384	-
Institute of Museum and Library Services				
<i>Pass-through from Commonwealth of Puerto Rico Department of Education</i>				
Grants to States	45.310	LST A-2016-2017-BE001	29,773	-
		LST A-2016-2017-BE002		-
Total Institute of Museum and Library Services			29,773	-
Total expenditures of federal awards			\$ 128,840,709	\$ 10,196,092



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

*Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended, June 30, 2019*

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Municipality of San Juan (the Municipality) under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures related to Disaster Grants - Public Assistance (CFDA 97.036) are recognized when incurred and approved by the granting agency.

The Municipality has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. SUBRECIPIENTS

During fiscal year 2018-2019, the Municipality disbursed \$10,196,092 to sub-recipients for healthcare, public service and housing, and other community-based services. The Municipality's federal financial assistance programs were:

Federal Program	CFDA Number	Expenditures to Subrecipients
Community Development Block Grants/Entitle Grants	14.218	\$ 375,446
Housing Opportunities for Persons with AIDS	14.241	2,845,693
HIV Emergency Relief Project Grants	93.914	6,974,953
Total		<u>\$ 10,196,092</u>

4. LOAN AGREEMENTS

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 \$23.4 million at June 30, 2019 and is payable in annual installments ranging from \$4.4 to \$6.3 million, mature at various dates through August 2022 and bear interest at 0.2% over 90-day LIBOR (1.33% at June 30, 2019). This loan agreement will be repaid from future grant awards received from the Community Development Block Grants ("CDBG") program.

Municipality of San Juan
Commonwealth of Puerto Rico
PHA Number RQ006
Housing Financial Data Schedule
June 30, 2019

	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
111 Cash - Unrestricted	\$ -	\$ -	\$ -	\$ -
112 Cash - Restricted - Modernization and Development	-	-	-	-
113 Cash - Other Restricted	346,512	1,206,432	2,131,098	3,684,042
114 Cash - Tenant Security Deposits	-	-	-	-
115 Cash - Restricted for Payment of Current Liabilities	-	-	-	-
100 Total Cash	346,512	1,206,432	2,131,098	3,684,042
121 Accounts Receivable - PHA Projects	-	-	-	-
122 Accounts Receivable - HUD Other Projects	-	-	-	-
124 Accounts Receivable - Other Government	-	-	-	-
125 Accounts Receivable - Miscellaneous	594,963	-	197,033	791,996
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	594,963	-	197,033	791,996
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	941,475	1,206,432	2,328,131	4,476,038
161 Land	-	-	-	-
162 Buildings	-	-	-	-
163 Furniture, Equipment & Machinery - Dwellings	-	-	-	-
164 Furniture, Equipment & Machinery - Administration	-	-	-	-
165 Leasehold Improvements	-	-	-	-
166 Accumulated Depreciation	-	-	-	-
167 Construction in Progress	-	-	-	-
168 Infrastructure	-	-	-	-
160 Total Capital Assets, Net of Accumulated Depreciation	-	-	-	-

Municipality of San Juan
Commonwealth of Puerto Rico
PHA Number RQ006
Housing Financial Data Schedule
June 30, 2019

	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
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	-	-	-	-
200 Deferred Outflow of Resources	-	-	-	-
290 Total Assets and Deferred Outflow of Resources	\$ 941,475	\$ 1,206,432	\$ 2,328,131	\$ 4,476,038
311 Bank Overdraft	\$ -	\$ -	\$ -	\$ -
312 Accounts Payable <= 90 Days	-	-	-	-
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 Unearned Revenue	-	-	-	-
343 Current Portion of Long-term Debt - Capital	-	-	-	-
344 Current Portion of Long-term Debt - Operating Borrowings	-	-	-	-
345 Other Current Liabilities	2,058,868	751,070	44,057	2,853,995
346 Accrued Liabilities - Other	-	-	-	-
347 Inter Program - Due To	-	-	-	-
348 Loan Liability - Current	-	-	-	-
310 Total Current Liabilities	2,058,868	751,070	44,057	2,853,995
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	2,058,868	751,070	44,057	2,853,995

Municipality of San Juan
Commonwealth of Puerto Rico
PHA Number RQ006
Housing Financial Data Schedule
June 30, 2019

	14.249 Section 8 Moderate Choice Vouchers	14.871 Housing Rehabilitation Single Room Occupancy	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
400 Deferred Inflow of Resources	-	-	-	-
508.3 Nonspendable Fund Balance	-	-	-	-
509.3 Restricted Fund Balance	-	\$455,362	\$2,284,074	\$2,739,436
510.3 Committed Fund Balance	-	-	-	-
511.3 Assigned Fund Balance	-	-	-	-
512.3 Unassigned Fund Balance	(1,117,393)	-	-	(1,117,393)
513 Total Equity - Net Assets / Position	(1,117,393)	455,362	2,284,074	1,622,043
600 Total Liabilities, Deferred Inflows of Resources and Equity -	\$ 941,475	\$ 1,206,432	\$ 2,328,131	\$ 4,476,038



Municipality of San Juan
Commonwealth of Puerto Rico
PHA Number RQ006
Housing Financial Data Schedule
June 30, 2019

	14.871 Housing Choice Vouchers	14.249 Section 8 Moderate Rehabilitation Single Room Occupancy	14.856 Lower Income Housing Assistance Program_Section 8 Moderate	Total
70300 Net Tenant Rental Revenue	\$ -	\$ -	\$ -	\$ -
70400 Tenant Revenue - Other	-	-	-	-
70500 Total Tenant Revenue	-	-	-	-
70600 HUD PHA Operating Grants	28,107,773	1,052,562	3,729,613	32,889,948
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	12,920	-	-	12,920
71200 Mortgage Interest Income	-	-	-	-
71300 Proceeds from Disposition of Assets Held for Sale	-	-	-	-
71310 Cost of Sale of Assets	-	-	-	-
71400 Fraud Recovery	85,438	-	2,256	87,694
71500 Other Revenue	-	-	-	-
71600 Gain or Loss on Sale of Capital Assets	-	-	-	-
72000 Investment Income - Restricted	-	-	-	-
70000 Total Revenue	28,206,131	1,052,562	3,731,869	32,990,562
91100 Administrative Salaries	1,487,205	19,648	61,978	1,568,831
91200 Auditing Fees	-	-	-	-
91300 Management Fee	-	-	-	-
91310 Book-keeping Fee	-	-	-	-
91400 Advertising and Marketing	-	-	-	-
91500 Employee Benefit contributions - Administrative	114,404	1,503	4,824	120,731
91600 Office Expenses	15,154	-	-	15,154
91700 Legal Expense	-	-	-	-
91800 Travel	-	-	-	-
91810 Allocated Overhead	-	-	-	-
91900 Other	716,681	33,661	93,456	843,798
91000 Total Operating - Administrative	2,333,444	54,812	160,258	2,548,514

Municipality of San Juan
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PHA Number RQ006
Housing Financial Data Schedule
June 30, 2019

	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	14,797	1,435	10,062	26,294
93300 Gas	-	-	-	-
93400 Fuel	-	-	-	-
93500 Labor	7,826	-	346	8,172
93600 Sewer	-	-	-	-
93700 Employee Benefit Contributions - Utilities	-	-	-	-
93800 Other Utilities Expense	11,092	725	3,824	15,641
93000 Total Utilities	33,715	2,160	14,232	50,107
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	57,829	805	2,354	60,988
96140 All Other Insurance	143,257	2,297	7,519	153,073
96100 Total insurance Premiums	201,086	3,102	9,873	214,061
96200 Other General Expenses	14,803	-	705	15,508
96210 Compensated Absences	2,060	-	1,018	3,078
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	16,863	-	1,723	18,586

Municipality of San Juan
Commonwealth of Puerto Rico
PHA Number RQ006
Housing Financial Data Schedule
June 30, 2019

	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	2,585,108	60,074	186,086	2,831,268
97000 Excess of Operating Revenue over Operating Expenses	25,621,023	992,488	3,545,783	30,159,294
97100 Extraordinary Maintenance	-	-	-	-
97200 Casualty Losses - Non-capitalized	-	-	-	-
97300 Housing Assistance Payments	26,566,062	784,962	3,006,753	30,357,777
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	29,151,170	845,036	3,192,839	33,189,045
10010 Operating Transfer In	-	-	-	-
10020 Operating transfer Out	(7,230)	-	(190)	(7,420)
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)	(7,230)	-	(190)	(7,420)
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	(952,269)	207,526	538,840	(205,903)

Municipality of San Juan
Commonwealth of Puerto Rico
PHA Number RQ006
Housing Financial Data Schedule
June 30, 2019

	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
11020 Required Annual Debt Principal Payments	-	-	-	-
11030 Beginning Equity	(165,124)	247,835	1,745,235	1,827,946
11040 Prior Period Adjustments, Equity Transfers and Correction	-	1	(1)	-
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	771,893	-	-	771,893
11180 Housing Assistance Payments Equity	(1,889,286)	-	-	(1,889,286)
11190 Unit Months Available	56064	2064	5712	63840
11210 Number of Unit Months Leased	45063	2020	5489	52572
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	-	-	-	-



Municipality of San Juan
Commonwealth of Puerto Rico
PHA Number RQ006
Notes to Housing Financial Data Schedule
June 30, 2019

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 THE UNIFORM
GUIDANCE**

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*

Hon. Carmen Yulin Cruz Soto and
Members of the Municipal Legislature of the
Municipality of San Juan,
Commonwealth of Puerto Rico
San Juan, 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, each major fund, and the aggregate remaining fund information of the Municipality of San Juan (the Municipality), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 18, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 thru 2019-003 that we consider to be significant deficiencies.

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 (CONTINUATION)

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as items 2019-001.

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.

San Juan, Puerto Rico
December 18, 2019

The stamp number 2767055
was affixed to the original report

González Torres & Co., CPA, PSC

GONZÁLEZ TORRES & CO., CPA, PSC

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Expires December 1, 2020



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Hon. Carmen Yulin Cruz Soto and
Members of the Municipal Legislature of the
Municipality of San Juan,
Commonwealth of Puerto Rico
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Municipality of San Juan's (the Municipality) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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 major federal programs for the year ended June 30, 2019.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUATION)

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-004. 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 the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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 a 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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-004, that we consider to be significant deficiency.

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.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUATION)

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

San Juan, Puerto Rico
February 25, 2020

The stamp number 2767056
was affixed to the original report



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Expires December 1, 2020



Municipality of San Juan
Commonwealth of Puerto Rico
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I. Summary of Auditors' Results:

Part I Financial Statements

1. Type of audit report:
 - Unmodified opinion
 - Qualified opinion
 - Adverse opinion
 - Disclaimer of opinion

2. Internal control over financial reporting:
 - a) Material weaknesses identified
 Yes No

 - b) Significant deficiency(ies) identified not considered to be material weakness(es)
 Yes No

3. Noncompliance material to financial statements noted
 Yes No

Part II Federal Awards

1. Type of report: on compliance for major programs:
 - Unmodified opinion
 - Qualified opinion
 - Adverse opinion
 - Disclaimer of opinion

2. Internal control over major program:
 - a) Material weaknesses identified
 Yes No

 - b) Significant deficiency(ies) identified not considered to be material weakness(es)
 Yes No

Municipality of San Juan
Commonwealth of Puerto Rico
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I. Summary of Auditors' Results (continued):

Part II Federal Awards (continued):

3. Audit findings required to be reported under *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*:

Yes No

4. Major Programs:

<u>CFDA Number</u>	<u>Federal Program or Cluster</u>
14.218	Community Development Block Grants / Entitlement Grants
14.241	Housing Opportunities for Persons with AIDS
14.249, 14.856	Section 8 Project Based Cluster
14.871	Section 8 Housing Choice Vouchers
17.258, 17.259, 17.278	Workforce Innovation & Opportunity Act Cluster
84.007, 84.033, 84.063	Student Financial Assistance Cluster
93.569	Community Services Block Grant
93.600	Head Start
93.914	HIV Emergency Relief Project Grants
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

6. Low-risk auditee

Yes No

Municipality of San Juan
Commonwealth of Puerto Rico
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding No. 2019-001

Significant Deficiency Internal Controls over Compliance and Compliance with Financial Reporting Requirements (Repeated in 2018 report, finding No. 2018-001)

Criteria

Article 8.010 (a) of the Act 81 of August 30, 1991, as amended, establishes that the Municipality must have an accounting system that provides 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. The above-mentioned article also 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 (GASB).

Article 7.011 of the Act 81 of August 30, 1991, as amended, 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

During the audit process, we found the following situations:

- The Municipality has debit balances in its subsidiary of accounts payable as of June 30, 2019 amounting to \$12.2 million. According to management such debit balances occur because of improper application of payments to invoices but does not affect the total accounts payable balance.
- Capital assets amounting to \$555 million include works of art that amount to \$2.2 million at June 30, 2019. The Municipality does not have a subsidiary record of works of art that reconciles with the general ledger at year end.
- The Municipality does not reconcile the cash deposit bank statements on a timely basis (i.e., 30 days after end of month). We noted that 53 out of 123 bank accounts reconciliations, were performed between 32 and 148 days after year end.
- The Pre-intervention Area is not restricted to the Vendors Accounting Module and permits users to change address and vendor's name during the disbursement process.

Cause

These situations occur because the Municipality's accounting and financial reporting policies and procedures are not specific in some instances and need to strengthen its internal controls. In addition, the Municipality's financial accounting and reporting structure is not used to its maximum capacity to permit timely analysis of transactions, balances and proper reconciliation of the cash and other accounts.

Municipality of San Juan
Commonwealth of Puerto Rico
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Effect

The Municipality may not be able to detect errors or irregularities on a timely basis.

Recommendation

The Municipality should continue its efforts to review its current accounting and financial reporting structure. The debit balances within the accounts payable subsidiary at year-end should be reviewed, analyzed and adjusted. The Municipality should establish detailed property records for its work of art and reconcile such balance to the general ledger. Such detailed property records should include location of property unit, description and date placed in services. Bank reconciliation process should be evaluated to shorten the reconciliation period. The Pre-intervention Area's access to the Vendors Accounting Modules should be restricted to eliminate their ability of changing vendor address and vendor names.

Responsible Official

Finance Director

Management Response

Management concurs with the finding. The closing process has improved significantly during the past years and we continue to seek ways to reduce the time required to perform the year-end analyses and closing process.

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Commonwealth of Puerto Rico
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding No. 2019-002

Significant Deficiency -Access Security over Financial Applications (Repeated in 2018 report, finding No. 2018-005)

Criteria

In order to maintain a secure information system environment, the Information Technology (IT) Department should assure that the following controls are in place:

- An existence of a well-designed and documented process about the access review. The process should include the nature and extent of user access privileges to ensure that users are those authorized. Any other unauthorized user must be eliminated.
- The identification of users is authenticated through application systems and network passwords or other mechanisms. Passwords must comply with Municipality's password policy and best practices.
- Secured informative websites. Unsecured websites increase the risks of hackers' attacks.

Condition

The Municipality implemented a new password policy in the last quarter of 2019. Although a password history is available and an account lockout requirement are enforced, these procedures are not included in the written policy. Limited user access reviews were performed during the fiscal year by IT personnel and business/application owners for Oracle financial application and Windows Local Area Network (LAN).

We identified some IT security and protection internal control deficiencies in several instances as follow:

- USB drives were open and provided easy access to data and programs.
- Some server cabinets were found unlocked.
- Physical access control to the Computer Center is limited to a single factor (Proximity card door locks).
- Some cables and switches were exposed and unprotected.
- The Municipality does not have an inventory of highly sensitive information.
- Although the transactional areas of the Municipality's web page were secured, the informative section of the websites were not secured.

Cause

The Municipality did not perform IT risks and vulnerabilities assessments in order to review controls and procedures. Also, the Municipality has established and formally documented a policy regarding standard or minimum logical security authentication parameters; however, the password policy does not require the configuration of an account lockout and password history.

Some IT security and protection internal controls were exposed and unprotected.

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Effect

Failure to comply with the security and procedures as presented above, may result in the following:

- Lack of review of user access levels may result in employees having access to record and authorize different types of transactions (e.g., journal entries, etc.), thus, exposing the Municipality to a risk of fraud, manipulation of information, misappropriation and errors. Furthermore, failure to review user access levels, including those of privileged users on a periodic basis, may not allow the Municipality to detect and correct unauthorized access on a timely manner.
- Inability to secure the operating system and application through appropriate logical security settings exposes the Municipality financial information to threats, such as deliberate attacks by malicious persons or disgruntled employees in order to gain unauthorized access (e.g., via password capturing, guessing, cracking, etc.) to compromise system/data integrity, availability, or confidentiality. The aforementioned inability may also subject the agency financial information to unintentional acts, such as negligence and errors, which circumvent system security.

Recommendation

We recommend that the Municipality perform annual risks and vulnerabilities assessments. Include password history and account lockout requirements on the password policy and procedures, requiring that IT personnel and business/application owners periodically review all user access privileges. Documentation should be retained to evidence such reviews as well as any changes made.

Embrace personnel training for security and protection best practices. Instruct personnel to lock every cabinet and install the corresponding missing cabinets. Consult with your infrastructure provider to repair all exposed and unprotected system equipment.

In addition, we recommended the use of “https:” on every page for the website’s visitors protection and the Municipality.

Responsible Official

Information System Department Director

Management Response

Management substantially agrees with the findings. Corrective actions have been taken to implement most of the recommendations. The following are clarifications and updates to the topics included in this finding:

- Management evaluated and decided not to include the details of password history and account lockout requirements in its written policy since these are adjusted periodically to respond to threats, changes in technology and performance capacity. The inclusion of these details will result in a burden as adjustments will require our written policy to be constantly updated. Rather, management included the general requirement of passwords to access the network and applications.

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- As of November 2019, the Municipality completed a full review of user's access and is planning to continue to review it periodically.
- USB, and CD drives were secured since May 2017 however, when tested by the auditors it was deactivated without IT department noticing the change. Immediately after noting the situation the Information Systems Department implemented corrective actions and since January 2020 the drives have been secured.
- Management instructed its personnel to close all the cabinets. However, it is important to note that the unlocked cabinets were in a secure environment that can only be accessed by authorized personnel and is monitored by cameras 24 hours a day.
- Management is evaluating a second factor to be implemented in the future to improve its controls over the physical access to the Computer Center.
- Situation regarding cables and switches that were exposed and unprotected was corrected immediately, and currently there are no loose cables are found in the data center.
- Management will conduct an inventory of sensitive information.
- As of January 2020, the Municipality's web page was secured using Secured Sockets Layers (SSL) Certificate.

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Schedule of Findings and Questioned Costs
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Finding No. 2019-003

Significant Deficiency on Disaster and Recovery Plan on Information Systems

Criteria

A disaster recovery plan (DRP) is a documented process and set of procedures to execute the recovery processes and protect the IT-infrastructure in the event of a disaster. It is a comprehensive statement of consistent actions to be taken before, during and after a disaster.

A DRP incorporates a data recovery plan and will maximize the effective recovery of the operation in the event of a natural disaster, data breach, or other disaster.

Condition

The Municipality approved on May 2, 2014, the document titled “Plan De Emergencia De Los Sistemas De Información”, OSI-NP-03. This document has not been updated or reviewed since then. Since Hurricane María in September 2017, no DRP drills and test procedures have been performed nor documented. The outdated policy does not consider “cloud backups” and synchronization services currently performed by the Municipality. There is an outdated Business Impact Analysis (BIA) that is part of a main DRP, and such BIA is dated August 21, 2009.

Cause

Outdated DRP, and missing drills and test performed reduce or eradicate the effectiveness of the Municipality’s operation recovery in the event of a natural disaster, data breach, or other disaster.

Effect

Increase the risk of the inability to secure the data and operating system and exposes the Municipality financial information and assets losses, among others.

Recommendation

We recommend that the Municipality update the IT DRP plan including cloud backup and restored resources documentation, synchronization services, and required documented system testing and drills semi-annually for a more updated and completed policy. Due to the fast technology change, a ten-year Business Impact Analysis (BIA) should be updated taking into consideration modern technology. We recommend updating the BIA with the use of current technology.

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Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Responsible Official

Information System Department Director

Management Response

Management agrees with the finding and will update its plans, DRP and perform drills. However, it is important to note the actions taken by the Municipality to ensure business continuity and security of information after catastrophic events like Hurricane María:

- Since September 2017, user data have been backed up to the cloud using “One Drive” application. Users can access data (I.E. Excel spreadsheets, word documents, etc.) backed up in the cloud. The backup has been used various times and enabled the recovery of documents after blackouts.
- Since July 2017, Oracle Financial Management System, has been running live using the redundancy concept. Under this model “passive replication” there is only one server (called primary) that processes client requests. After processing a request, the primary server updates the state on the other (backup) servers and sends back the response to the client. If the primary server fails, one of the backup servers takes its place. The primary server is in Puerto Rico while the backup server is in the United States and is updated in real time to ensure business continuity if a major disaster happens in Puerto Rico.

***Municipality of San Juan
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*Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019*

Finding No. 2019-004

Significant Deficiency on Community Services Block Grant Financing Reporting

<i>Federal Program</i>	Community Services Block Grant CFDA No. 93.569 Department of Health and Human Services
<i>Award Year and Number</i>	2019-G994002
<i>Pass-Through Entity</i>	Puerto Rico Office for Socioeconomic and Community Development

Criteria

All Community Services Block Grant (CSBG) grantees shall participate in a performance measurement system in accordance with Section 678E of the CSBG statute, which includes state-established performance standards and participation in a Result Oriented Management and Accountability-(ROMA) process or a comparable process approved by HHS. Grantees shall also prepare and submit an annual report on the measured performance of the State and the eligible entities within the State.

The annual report submitted to the Office of Community Services contains accomplishments and results from the implementation of the plan submitted at the beginning of the fiscal year. Expenditure and program reports may be requested by the Office of Community Services as part of a monitoring review of eligible entities.

Condition

The primary recipient, Puerto Rico Office for Socioeconomic and Community Development (ODSEC, Spanish acronym) in Contract #2019-329283 and Memorandum # 2019-002 established program reports requirements. The Municipality submitted the CSBG Closing Report (CSBG-006) and First Quarterly Report (CSBG 3.0), 55 and 34 days after the due date, respectively.

Cause

The Municipality submitted on April 11, 2019, the CSBG Closing Report and the First Quarterly Report on February 28, 2019 that were due on January 15 and 24, 2019, respectively. Management informed us that the delay for these reports was because the person in-charge of program accounting and program financial reporting had recently passed away.

Effect

The Municipality was in noncompliance with the Financial Reporting submission which could decrease the funds received under CSBG program.

Question Costs

None.

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Recommendation

We recommend that the Municipality establish an alternative procedure to assure the compliance with the report's submission requirements.

Responsible Official

Director of Social and Community Development

Management Response

The Municipality immediately notified the granting agency of the challenges faced to complete the required reports and requested technical assistance to comply with the reporting requirements in a timely manner. As result, by the end of the fiscal year 2019, the program was able to comply with the reporting requirements and used the full grant allocation.

Municipality of San Juan
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Summary Schedule of Prior Years Findings
For the Year Ended June 30, 2019

Finding Reference Number	Finding Description	Questioned Cost	Finding Current Status
2018-001	Financial Reporting Requirements	-	Partially corrected. See Finding 2019-001
2018-002	Municipal Administration Regulations-Operating Deficit	-	Corrective Action was Implemented
2018-003	Municipal Administration Regulations - Interfund Transactions	-	Corrective Action was Implemented
2018-004	Municipal Administration Regulations – Debt Covenants	-	Corrective Action was Implemented
2018-005	Information Technology Security-	-	Partially corrected. See Finding 2019-002
2018-006	Cash Management	-	Corrective Action was Implemented
2018-007	Internal Controls -HAP Contracts	-	Corrective Action was Implemented
2018-008	Internal Controls – Enrollment Reporting	-	Corrective Action was Implemented
2018-009	Internal Controls – WIOA Board	-	Corrective Action was Implemented
2018-010	Internal Controls – Eligibility	-	Corrective Action was Implemented
2018-011	Internal Controls – Eligibility	-	Corrective Action was Implemented
2018-012	Internal Controls – Program Income	-	Corrective Action was Implemented
2017-001	Financial Reporting Requirements	-	Partially corrected. See Finding 2019-001
2017-002	Municipal Administration Regulations-Operating Deficit	-	Corrective Action was Implemented
2017-003	Information Technology Security-Terminated Employees	-	Corrective Action was Implemented
2017-004	Information Technology Security- Logical Security Settings	-	Corrective Action was Implemented
2017-005	Information Technology Security-Policies and Procedures	-	Partially corrected. See Finding 2019-002
2017-011	Cash Management	-	Corrective Action was Implemented
2017-017	Program Income	-	Corrective Action was Implemented
2016-001	Timeliness of the Year-End Closing Procedures	-	Corrective Action was Implemented
2016-005	Cash Management	-	Corrective Action was Implemented



MUNICIPALITY OF SAN JUAN

Corrective Action Plan Single Audit Requirements As of June 30, 2019

Finding Number	Category	Management Response and/or Corrective Action	Assigned Responsibility	Status
2019-001	Internal Controls	Management concurs with the finding. The closing process has improved significantly during the past years and we will continue strengthening controls over financial reporting and enforce procedures to reconcile information of accounting balances and transactions, in order to reduce the time required to perform the year-end analyses and closing process. Ongoing Process	Director of Finance	June 2020
2019-002	Internal Controls	<p>Management substantially agrees with this finding. Corrective actions have been taken to implement most of the recommendations. The following are clarifications and updates to the topics included in this finding:</p> <ul style="list-style-type: none"> • Management decided not to include the details of password history and account lockout requirements in its written policy, since these are adjusted periodically to respond to threats, technology changes and performance capacity. The inclusion of these details will result in a burden as adjustments will require our written policy to be constantly updated. Rather, management included the general requirement of passwords to access the network and applications. Corrected. • As of November 2019, the Municipality completed a full review of user’s access and is planning to continue to review it periodically. Corrected by November 2019 • USB and CD drives were secured since May 2017. However, when tested by the auditors they were found deactivated without IT department noticing the change. Immediately, the Information Systems Office implemented corrective actions and since January 2020 the drives have been secured. Corrected by January 2020 • Management instructed its personnel to close all the cabinets. However, it is important to note that the unlocked cabinets were in a secure environment that can only be accessed by authorized personnel and monitored by cameras 24 hours a day. Ongoing Process • Management is evaluating a second factor to be implemented in the future to improve its controls over the physical access to the Computer Center. Ongoing Process • Situation regarding cables and switches that were exposed and unprotected was corrected immediately, and currently there are no loose cables in the data center. Corrected by January 2020 • Management will conduct an inventory of sensitive information. Ongoing Process • As of January 2020, the Municipality’s web page was secured using Secured Sockets Layers (SSL) Certificate. Corrected by January 2020 	Director of Information Systems	June 2020



MUNICIPALITY OF SAN JUAN

Corrective Action Plan Single Audit Requirements As of June 30, 2019

Finding Number	Category	Management Response and/or Corrective Action	Assigned Responsibility	Status
2019-003	Internal Controls	<p>Management concurs with this finding. The Municipality will update its IT Disaster Recovery Plan (DRP) and perform drills. However, the Municipality has already taken major actions to ensure our business continuity and the security of information after catastrophic events like hurricane Maria:</p> <ul style="list-style-type: none"> • Since July 2017, our Oracle Financial Management System has been running “live” using the redundancy concept. Under this model, called “passive replication”, only one server (the primary) processes the clients’ requests. After the primary server updates the status on the other (backup) servers, it sends back the response to the client. If the primary server fails, one of the backup servers takes its place. The primary server is in Puerto Rico, but the backup server resides in the continental US and it is updated in real time. • Since September 2017, user data have been backed up to the cloud using “One Drive” application. Users can access data backed up in the cloud such as Excel spreadsheets, Word documents, etc. This backup was used on numerous occasions and it has enabled the recovery of documents after blackouts. • Drills will be performed in February 2020. 	Director of Information Systems	February 2020
2019-004	Internal Controls	<p>Management concurs with this finding. The Municipality immediately notified the granting agency of the challenges it has faced to complete the required reports and requested technical assistance to comply with the reporting requirements in a timely manner. As a result, the program was able to comply with the reporting requirements and used the full grant allocation by the end of the fiscal year 2019. Corrected</p>	Director of Social and Community Development	Corrected by June 30, 2019