GOVERNMENT OF PUERTO RICO
CRIMINAL JUSTICE COLLEGE OF PUERTO RICO

STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES (USES) – GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

GOVERNMENT OF PUERTO RICO
CRIMINAL JUSTICE COLLEGE OF PUERTO RICO
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FOR THE FISCAL YEAR ENDED
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CPA DIAZ-MARTINEZ, PSC

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF
CRIMINAL JUSTICE COLLEGE OF PUERTO RICO
Gurabo, Puerto Rico

We have audited the accompanying statement of revenues, expenditures, and other financing sources (uses) – governmental funds of the **Criminal Justice College of Puerto Rico (Institution)** for the fiscal year ended June 30, 2011. This financial statement is the responsibility of **Institution**'s management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

As discussed in Note 1, the financial statement present only the revenues, expenditures, and other financing sources (uses) of the governmental funds and do not purport to, and do not, present fairly the financial position of the **Institution**, as of June 30, 2011, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1, the financial statement of the **Institution** is intended to present the revenues, expenditures, and other financing sources (uses) of the governmental funds of only that portion of the financial reporting entity of the Government of Puerto Rico that is attributable to the transactions of the **Institution**. They do not purport to, and do not, present fairly the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Government of Puerto Rico as of June 30, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above present fairly, in all material respects, the revenues, expenditures, and other financing sources (uses) of the governmental funds of the **Institution** for the fiscal year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

CPA Díaz-Martínez, PSC

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
November 18, 2011

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STATEMENT OF REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES (USES) – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	GENERAL FUND	SPECIAL FUND	TOTAL
REVENUES:			
Appropriations from the Government of Puerto Rico	$2,772,333	$ -	$2,772,333
Tuition and Fees	-	1,517,046	1,517,046
Interest Earned	-	322,686	322,686
Other Income	-	81,273	81,273
Total Revenues	2,772,333	1,921,005	4,693,338
EXPENDITURES:			
Instructional and Instruction Related Services	2,075,194	84,016	2,159,210
Support Services – Students	104,572	-	104,572
Management and General Activities	202,758	1,763,379	1,966,137
Operation and Maintenance of Plant	-	599,894	599,894
Transportation and Subsistence	600	318	918
Professional Services	13,000	1,029,490	1,042,490
Materials and Supplies	215,461	1,203,623	1,419,084
Purchase of Equipment	94,972	284,576	379,548
Others	2,919	101,902	104,821
Total Expenditures	2,709,476	5,067,198	7,776,674
Excess of Revenues Over (Under) Expenditures	62,857	(3,146,193)	(3,083,336)
OTHER FINANCING SOURCES (USES):			
Transfers between funds (Tuition)	(1,621,000)	1,621,000	-
NET CHANGES	**($1,558,143)**	**($1,525,193)**	**($3,083,336)**

See accompanying *Notes to the Financial Statement*.

1. FINANCIAL REPORTING ENTITY

The accompanying financial statement present information on the financial activities of the **Criminal Justice College of Puerto Rico (Institution)** over which the Chancellor and the Board of Directors, have direct or indirect governing and fiscal control. This financial statement has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

On July 17, 1999, Act Number 155 was approved to establishing the **Institution**. This Act creates the **Institution** as a higher education institution empowered to confer university degrees with academic and operating autonomy. On September 2, 2000, Act Number 321, amend the Act Number 155, to provide academic, fiscal and operational independence to the **Institution**. This Act authorized the transfer to the Chancellor of the **Institution** the responsibility for all personnel, real and personal properties, documents and available funds.

The Puerto Rico Council of Higher Education has granted a license authorizing the **Institution** to offer an Associate Degree in Criminal Justice. The **Institution** has started the procedures required for obtaining accreditation from the Middle States Association of Colleges and Schools in order to comply with the requirements for receiving federal funds.

For fiscal purposes, the **Institution** operates as a program attached to the operating budget of the Government of Puerto Rico approved by the Office of Management and Budget. The operating budget of the **Institution** is specifically assigned to the **Institution**. The Treasury Department of the Government of Puerto Rico transfer the funds appropriated by the state to the **Institution** which proceeds with the corresponding disbursement in accordance with law and was monitored by the Office of Management and Budget. At June 30, 2008, the responsibilities authorized by Act Number 321 were transferred to the **Institution** and the others (transfer of properties) are pending of final coordination with the corresponding state agencies.

B. Reporting Entity

The accompanying financial statement includes all divisions whose funds are under the custody and control of the **Institution**. In evaluating the **Institution** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Codification of Governmental Accounting and Financial Reporting Standard, Section 2100.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the **Institution**'s financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the **Institution** to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the **Institution**.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **Institution** indicate no organizations meet the criteria to be included as component units. Accordingly, this financial statement presents only the **Institution** as the reporting entity.

1. FINANCIAL REPORTING ENTITY – continuation

The **Institution** is part of the Government of Puerto Rico which is the financial reporting entity. This financial statement presents the net changes in financial resources for the fiscal year ended on June 30, 2011. Accordingly, they are not intended to present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Government of Puerto Rico, and the respective changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with GAAP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement – Measurement Focus and Basis of Accounting

This financial statement is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the *modified accrual basis of accounting* the revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. Accordingly, the financial statement is in accordance with GAAP issued by the Governmental Accounting Standard Board (GASB).

The **Institution** reports the following major governmental funds:

General Fund – This is the general operating fund of the **Institution**. It is used to account for all financial resources, except those required to be accounted for in another fund.

Special Fund – This is the fund used to account all transactions related with the training of municipal police enforcement and related agencies for public security. Also this fund is used to account for service's fees to students.

Notes to the Basic Financial Statements

The notes to the financial statement provide information that is essential to a user's full understanding of the data provided in the financial statement.

B. Stewardship, Compliance, and Accountability

Budgetary Information

The revenues recognized in the General Fund consist of appropriations from the Office of Management and Budget of the Government of Puerto Rico for recurrent and ordinary functions of the **Institution**. The procedures followed in approving the annual budget is as follows:

a. Between November and December the **Institution** submits to the Office of Management and Budget of the Government of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1.

b. At the beginning of the ordinary session of the Legislative Assembly of the Government of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Government. This proposed budget includes estimated expenditures and the means of financing them.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

c. The annual budget is legally enacted through the approval by the Legislative Assembly of the Joint Resolution of the General Budget. Subsequently to enactment, the Office of Management and Budget of the Government has the authority to make the necessary adjustments to the budget.

C. Interfund Transactions

The **Institution** has the following type of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund.

D. Risk Financing

The **Institution** carries commercial insurance to cover property and casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities and Government of Puerto Rico instrumentalities. Also, principal officials of the **Institution** are covered under various surety bonds.

E. Accounting for Pension Costs

The **Institution** adopted the provisions of Codification of Governmental Accounting and Financial Reporting Standard Section Pe5, Pension Plans – Defined Benefit, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

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

For the purpose of applying the requirements of the Codification, the Government is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multiemployer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the **Institution** participate. The **Institution** is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government.

F. Use of Estimates

The preparation of the financial statement in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures and disclosures during the reporting period. Actual result may differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

G. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. The **Institution** has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds.

H. Future Adoption of Accounting Pronouncements

The GASB issued the following pronouncements that have effective dates after June 30, 2011:

GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011.

GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

The **Institution**'s financial statement was not affected by the implementation of these statements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

The **Institution** has not yet determined the effect this statement will have on the **Institution**'s financial statement.

GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53. Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experience either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Earlier application is encouraged.

The **Institution**'s financial statement was not affected by the implementation of this statement.

3. CASH

Cash in Banks

The **Institution**'s cash and investments at June 30, 2011 are composed of: (1) demand deposits in commercial banks. Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Government. The **Institution** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Government laws.

The **Institution** follows the practice of pooling cash. At June 30, 2011, the cash are maintained in commercial banks with a balance of $17.7 million. The balance in cash account is available to meet current operating requirements and is deposits in interest bearing commercial bank accounts, and is recorded at cost, which approximates fair value. Any deficiency in the cash account is assumed by the general fund and covered through future budgetary appropriation.

3. CASH – continuation

Under the laws and regulations of the Government, public funds deposited by the **Institution** in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Government's Secretary of the Treasury, but not in the **Institution**'s name.

Institution follows the provisions of Codification of Governmental Accounting and Financial Reporting Standard, Section C20, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the **Institution** at June 30, 2011:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2011, the **Institution** has invested only in cash equivalents of $18.8 million consisting of deposit in interest bearing commercial bank accounts, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the **Institution** in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2011. Therefore, the **Institution**'s management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the **Institution**'s deposits is considered low at June 30, 2011.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the **Institution** will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Government adopted by GDB, the **Institution** may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2011, the **Institution** has balances deposited in commercial banks amounting to $18.8 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk. Therefore, the **Institution**'s management has concluded that at June 30, 2011, the custodial credit risk associated with the **Institution**'s cash and cash equivalents is considered low.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The **Institution** manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2011, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2011, the interest risk associated with the **Institution**'s cash and cash equivalent is considered low.

3. CASH – continuation

Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the **Institution**, the **Institution** is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the **Institution**'s deposits is considered low at June 30, 2011.

4. PENSION PLAN

Description of the Plan

Employees of the **Institution** participate in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Government under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Government and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be 1.5% of the average salary, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average salary, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

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

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% for the first $550 of monthly salary plus 8.275% for the excess of this amount, or on the alternative, 8.275% of their monthly gross salary. The **Institution** is required by Act No. 447 to contribute 9.275% of its employees' gross salaries.

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

4. PENSION PLAN – continuation

Law Number 305 was enacted on September 24, 1999, amended the Act Number 447 for the purpose of establishing a new program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system (ERS) as of December 31, 1999, may elect either to stay in the defined-benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, will only be allowed to become members of System 2000.

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

If at time of retirement accumulated benefits amount to $10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits. Under the new program the retirement age is reduced from 65 to 60 for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contribution requirements are established by law and are as follows:

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

Annual Contribution

Total employee contributions to the above-mentioned plans during the fiscal years ended June 30, 2011, 2010 and 2009 amounted to approximately $407,816. The **Institution**'s contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follow:

FISCAL YEAR	LAW NO. 447	SYSTEM 2000
2011	$105,668	$ 24,384
2010	137,358	27,196
2009	141,664	26,446

These amounts represented the 100% of the required contribution for the corresponding year. Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

4. PENSION PLAN – continuation

The Employee's Retirement System of the Government of Puerto Rico provides additional information of the ERS and System 2000. They issue a publicly available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Government. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

5. CONTINGENCIES

The **Institution** is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the **Institution's** activities. The legal counsel of the **Institution** has advised that at this stage in the proceeding of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the **Institution** is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Legal counsel with the information currently available cannot determine the final outcome of these claims, with the exception of one (1) lawsuit related to alleged wrongful & illegal dismissal, to which the legal counsel has estimated a potential loss of $800,000.

END OF THE NOTES