

**COMMONWEALTH OF PUERTO RICO  
CRIMINAL JUSTICE COLLEGE OF PUERTO RICO  
STATEMENT OF REVENUES AND EXPENDITURES  
- GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2010**

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 STATEMENT OF REVENUES AND EXPENDITURES  
 – GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

|  | GENERAL<br>FUND      | SPECIAL<br>FUND    | TOTAL             |
|--|----------------------|--------------------|-------------------|
| <b>REVENUES:</b>   |                      |                    |                   |
| Appropriations from the Commonwealth<br>of Puerto Rico ..... | \$5,435,000          | \$ -               | \$5,435,000       |
| Tuition and Fees.....  | -                    | 2,683,590          | 2,683,590         |
| Interest Earned.....   | -                    | 209,811            | 209,811           |
| Other Income.....  | -                    | 50,310             | 50,310            |
| <b>Total Revenues</b> .....                                  | <u>5,435,000</u>     | <u>2,943,711</u>   | <u>8,378,711</u>  |
| <b>EXPENDITURES:</b>   |                      |                    |                   |
| Instructional and Instruction – Related Services .....       | 2,603,910            | 38,100             | 2,642,010         |
| Support Services – Students.....                             | 519,259              | -                  | 519,259           |
| Management and General Activities.....                       | 807,233              | 798,289            | 1,605,522         |
| Operation and Maintenance of Plant.....                      | -                    | 299,849            | 299,849           |
| Transportation and Subsistence.....                          | 3,275                | 10,250             | 13,525            |
| Professional Services.....                                   | 121,247              | 894,322            | 1,015,569         |
| Materials and Supplies .....                                 | 694,836              | 542,237            | 1,237,073         |
| Purchase of Equipment.....                                   | 189,916              | 85,573             | 275,489           |
| Others.....  | 4,784                | 33,994             | 38,778            |
| <b>Total Expenditures</b> .....                              | <u>4,944,460</u>     | <u>2,702,614</u>   | <u>7,647,074</u>  |
| <b>Excess of Revenues Over Expenditures</b> .....            | <u>490,540</u>       | <u>241,097</u>     | <u>731,637</u>    |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                      |                    |                   |
| Transfers between funds (Tuition).....                       | (1,500,000)          | 1,500,000          | -                 |
| <b>NET CHANGES</b> .....                                     | <u>(\$1,009,460)</u> | <u>\$1,741,097</u> | <u>\$ 731,637</u> |

See accompanying Notes to the Financial Statement.

COMMONWEALTH OF PUERTO RICO  
CRIMINAL JUSTICE COLLEGE OF PUERTO RICO  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization***

On July 17, 1999, Act Number 155 was approved to establishing the **Criminal Justice College of Puerto Rico (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 Commonwealth 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 Commonwealth 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.

***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 accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standard Board.

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.

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – continuation

***Budget and Budgetary Accounting***

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

1. Between November and December the **Institution** submits to the Office of Management and Budget of the Commonwealth of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1.
2. At the beginning of the ordinary session of the Legislative Assembly of the Commonwealth of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Commonwealth. This proposed budget includes estimated expenditures and the means of financing them.
3. 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 Commonwealth has the authority to make the necessary adjustments to the budget.

***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.

***Use of Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses and disclosures during the reporting period. Actual result may differ from those estimates.

**NOTE 2 – CASH**

***Cash in Banks***

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

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.

**NOTE 2 – CASH** – continuation

The **Institution** follows the practice of pooling cash. At June 30, 2010, the cash are maintained in commercial banks with a balance of \$19,790,999. 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.

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 Section C20 of the GASB Codification of *Governmental Accounting and Financial Reporting Standards*, 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, 2010:

**Credit Risk**

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2010, the **Institution** has invested only in cash equivalents of \$19.8 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, 2010. 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, 2010.

**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, 2010, the **Institution** has balances deposited in commercial banks amounting to \$20.1 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, 2010, the custodial credit risk associated with the **Institution's** cash and cash equivalents is considered low.

**NOTE 2 – CASH** – continuation

***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, 2010, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2010, the interest risk associated with the **Institution's** cash and cash equivalent is considered low.

***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, 2010.

**NOTE 3 – PENSION PLAN**

***Description of the Plan***

Employees of the **Institution** participate in the Employee's Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (ERS). The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended. ERS covers all regular employees of the Commonwealth 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.

**NOTE 3 – PENSION PLAN** – continuation

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.

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 Commonwealth. 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.

**NOTE 3 – PENSION PLAN** – continuation

Contribution requirements are established by law and are as follows:

|                                   |                                      |
|-----------------------------------|--------------------------------------|
| <b>Institution</b>                | 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, 2010, 2009 and 2008 amounted to approximately \$465,051. 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 |
|-------------|-------------|-------------|
| 2010        | \$137,358   | \$ 27,196   |
| 2009        | 141,664     | 26,446      |
| 2008        | 163,559     | 28,744      |

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.

The Employee's Retirement System of the Commonwealth 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 Commonwealth. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, PR 00940-2003.

**NOTE 4 – 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. Certain of these claims are covered by insurance. 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 \$300,000.

**END OF THE NOTES**