

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE PONCE
AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

**BASIC FINANCIAL STATEMENTS WITH
ADDITIONAL REPORTS AND INFORMATION
REQUIRED BY THE SINGLE AUDIT ACT**

Year Ended June 30, 2015



Municipality of Ponce, P.O. Box 331709, Ponce, Puerto Rico 00733-1709

Visit our website at www.visitponce.com

Hon. María E. Meléndez Altieri, Mayor

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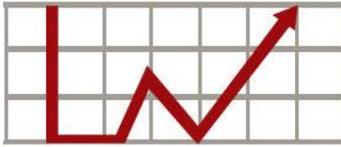
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INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature of the
Autonomous Municipality of Ponce
Ponce, Puerto Rico**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Ponce, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2015, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. 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 United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 misstatements 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Component Unit – Port of Ponce Authority	Qualified
General Fund	Unmodified
Capital Projects – Bond Issuances Fund	Unmodified
Debt Service Fund	Unmodified
Health and Human Services Grants Fund	Unmodified
Workforce Investment Act Grants Fund	Unmodified
Housing & Urban Development Grants Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

The financial statements of “**Port of Ponce Authority (PPA)**” were not audited, and we were not engaged to audit the **PPA’s** financial statements as part of our audit of the Government’s basic financial statements. The **PPA’s** financial activities are included in the Government’s basic financial statements as a discretely presented component unit and represents 2 percent, 3 percent and 1 percent of the assets, net financial position and revenues, respectively, of the Government’s aggregate discretely presented component units.

Qualified Opinion on the Aggregate Discretely Presented Component Units

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the discretely presented component unit of the **Autonomous Municipality of Ponce**, as of and for the year ended June 30, 2015, 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.

Basis for Qualified Opinion on Governmental Activities

The Municipality’s pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of the collective net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources reported by the pension plan trust. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality’s governmental activities has not been determined.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. 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, because of the significance of the matter discussed in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly the financial position of the governmental activities of the **Autonomous Municipality of Ponce**, Puerto Rico, as of June 30, 2015, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Ponce**, as of and for the year ended as of June 30, 2015, and the respective changes in its financial position, for General Fund, Capital Projects Fund –Bond Issues, Debt Service Fund, Health and Human Services Grants, Workforce Investment Act Grants, Housing & Urban Development Grants and Aggregate Remaining Fund Information thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **6** through **22** and Budgetary Comparison information on page **75**, 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 the 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.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters

Required Supplementary Information (continued)

Management has omitted historical pension information, as stated in GASB Statement No. 68, 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 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Autonomous Municipality of Ponce's** basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in the pages **77** thru **81** is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages **82** and **83** is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

The Financial Data Schedule and the Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the 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 Financial Data Schedule and the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2016, on our consideration of the **Autonomous Municipality of Ponce'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.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the **Autonomous Municipality of Ponce's** internal control over financial reporting and compliance.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico

March 4, 2016

Stamp No. 2705524 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

This discussion and analysis of the **Autonomous Municipality of Ponce** (the Municipality's) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2015. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. In addition, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2014. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2014-2015 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2015 constitute factual evidence of the Municipality's economic situation by the end of such year. The following comments deserve special mention:

- ❑ Total assets of the Municipality amounted to \$464,385,197, which represents a decrease of 2% compared to prior fiscal year.
- ❑ At the end of fiscal year 2015, total liabilities amounted to \$396,342,424. Out of said amount, \$334,252,487 corresponded to long-term liabilities, of which \$200,918,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which were paid from self-generated revenues.
- ❑ Total net position of the Municipality amounted to \$78,125,762, which represents a decrease of 14% compared to prior fiscal year
- ❑ Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$148,989,604 derived from the following sources: \$3,032,599 from fees, fines and charges for services; \$44,081,005 from operating grants and contributions; \$4,271,558 from capital grants and contributions, and \$97,604,442 from general revenues available.
- ❑ Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$153,767,835.
- ❑ As reflected in the Statement of Activities, the current fiscal year operations contributed to a decrease in the Net Position figure of \$4,778,231, when compared to prior fiscal year.

FINANCIAL HIGHLIGHTS (CONTINUED)

- ❑ On this fiscal year, the Municipality's change in net position decreased less than previous year. At the close of the current fiscal year, the change in net position for the current year amounted to \$(4,778,231) when compared with change in net position \$(11,676,786) for previous year.
- ❑ At the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund deficit of \$15,115,600.
- ❑ In the fund financial statements, the governmental funds revenue decreased \$4,515,125 (or 3%); governmental funds expenditures decreased by \$20,098,469 (or 11%).
- ❑ On a budgetary basis, the actual General Fund budgetary activities resulted in an unfavorable net change of \$946,743.
- ❑ As the end of the current fiscal year, the Municipality's General Fund accumulated deficit amounted to \$38,865,537 compared to a General Fund accumulated deficit of \$38,833,223, in the prior fiscal year. The accumulated deficit increased by \$32,314 when compared the prior fiscal year.
- ❑ The Municipality issued of repayment plan notes payables to PR –Retirement System Administration of 7,487,763 and Landfill Obligation of 8,042,707.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

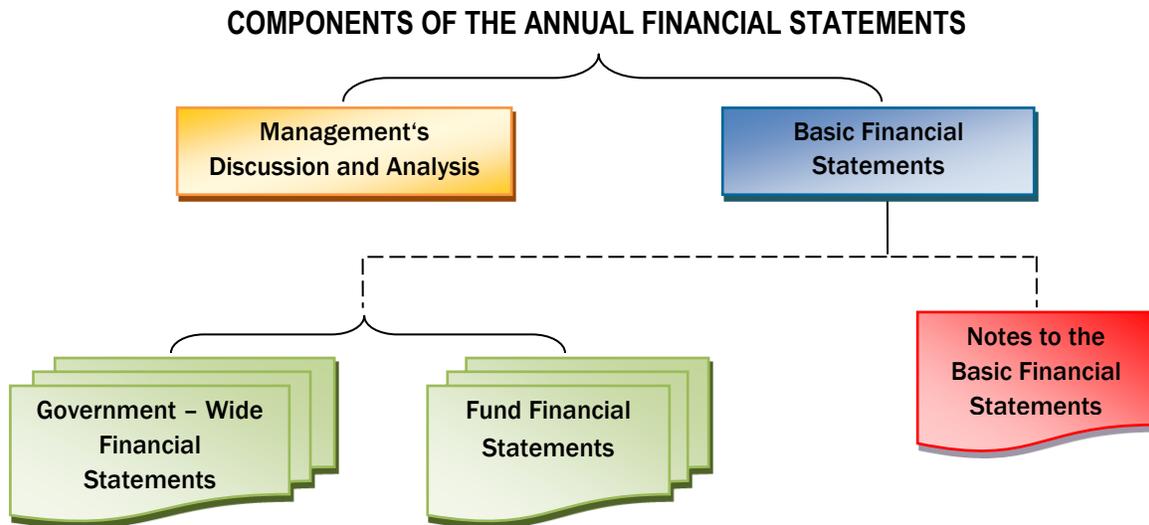
The new approach used in the presentation of the financial statements of the Municipality the based on a government-wide view of such statements as well as a presentation of individual funds behavior during the fiscal year 2014-2015. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years' performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision-making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government-wide financial statements, the major funds financial statements and the notes to the financial statements, which provide details, disclosure and description of the most important items included in the said statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The basic financial statements include two types of statements that present unique views of the Municipality's financial position. This report also contains required supplementary information (budgetary schedule).

FINANCIAL STATEMENTS COMPONENTS (continued)



Government-Wide Financial Statements

The government-wide financial statements are intended to provide readers with a broad overview of the Municipality's financial position. They are presented using accounting basis very similar to a privately owned business, or the economic resources measurement focus, and full accrual accounting.

- a. The *Statement of Net Position* presents information on all of the Municipality's assets and liabilities, with the balance between the two reported as *Net Position*. Over time, increases or decreases in net position can serve as an indicator of the Municipality's financial condition.
- b. The *Statement of Activities* presents information showing how the Municipality's net position changed during the given fiscal year. In this statement, all changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only affect cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes, capital grants and contributions (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Municipality include general government, public safety, public works, culture and recreation, health and welfare, urban development, claims and losses, education, training and employment, special communities, projects, depreciation and principal plus interest on related long-term debt.

The reader will need to consider non-financial factors, such as changes in the Municipality's property tax base and the condition of the roads, to assess the overall health of the Municipality.

The government-wide financial statements can be found on pages 23 to 24 of this report.

FINANCIAL STATEMENTS COMPONENTS (continued)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Accordingly, the governmental funds use the modified accrual basis of accounting. 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.

The Municipality maintains six (6) major governmental funds: General Fund, Capital Projects – Bonds Issuances Fund, Debt Service Fund, Health and Human Service Grants (HHS) Fund, Workforce Investment Act Grants (WIA) Fund, Housing and Urban Development Grants (HUD) Fund and Other Governmental Funds. The Housing Urban Development Grants (HUD) includes “690 funds” used for the issuance of loans to small businesses under what common known as the “Municipal Bank”. Financial data is shown in the balance sheet and in the statement of revenues, expenditures and changes fund balances(deficit).

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

The governmental funds financial statements can be found on pages 25 to 28 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 31 to 74 of this report.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a Budgetary Comparison Schedule - General, the Schedule of Municipality's Proportionate Share of Net Pension Liability and the Schedule of Municipality Contributions, as required by GASB.

The budgetary comparison schedule can be found on the page 75 of this report.

FINANCIAL STATEMENTS COMPONENTS (continued)

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. Governmental Accounting Standard Board ("GASB 34") requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements.

Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Government-wide Financial Analysis

Assets, liabilities and net position

Assets

As of June 30, 2015, the Municipality's total assets amounted to \$464,385,197, a decrease of \$11,809,881 when compared with the prior year.

Capital assets include items such as infrastructure, buildings, equipment, machinery, land and other tangible items. Infrastructures include streets, sidewalks, bridges, and others. The Municipality uses capital assets to provide services to the community and thus they are not available for immediate spending. Governmental major capital assets added in

Any resources needed to repay the debt associated with capital assets must be provided from sources other than the capital assets themselves since the capital assets cannot be liquidated to pay the related liabilities.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Liabilities

At the end of fiscal year 2015, total liabilities amounted to \$386,259,435. The current liabilities increased by \$3,111,339 and at the end of the current fiscal year, the Municipality had outstanding debt (bonds and notes) of \$200,918,000. During the current fiscal year, the Municipality's long term liabilities increased by \$8,567,491 or three 3 percent due to payment.

Net Position

The Statement of Net Position serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Ponce**, primary government assets exceed total liabilities by \$78,125,762 at the end of 2015, as compared to prior fiscal year. The following condensed Statements of Net Position of the Primary Government show on a comparative basis, the most important components of the \$(4,778,231) decrease reflected in the Net Position figure.

CONDENSED STATEMENTS OF NET POSITION

	2015	2014	Change	%
ASSETS				
Current and other assets	\$ 57,856,401	\$ 61,993,334	\$ (4,136,933)	(7)%
Capital assets	406,528,796	414,201,744	(7,672,948)	(2)%
Total assets	464,385,197	476,135,078	(11,809,881)	(2)%
LIABILITIES				
Current and other liabilities	62,015,656	67,546,089	5,530,433	8%
Long-term debt outstanding	324,243,779	325,684,996	1,441,217	.1%
Total liabilities	396,342,424	393,231,085	6,971,650	2%
NET POSITION:				
Net investment in capital assets	265,450,796	260,636,139	4,814,657	2%
Restricted for:				
Capital projects	14,597,685	4,892,093	9,705,592	198%
Debt service	24,295,216	22,959,126	1,336,090	6%
Other purposes	8,582,303	6,856,383	1,725,920	25%
Unrestricted	(234,800,238)	(212,439,748)	(22,360,490)	11%
Total net position	\$ 78,125,762	\$ 82,903,993	\$ (4,778,231)	(6)%

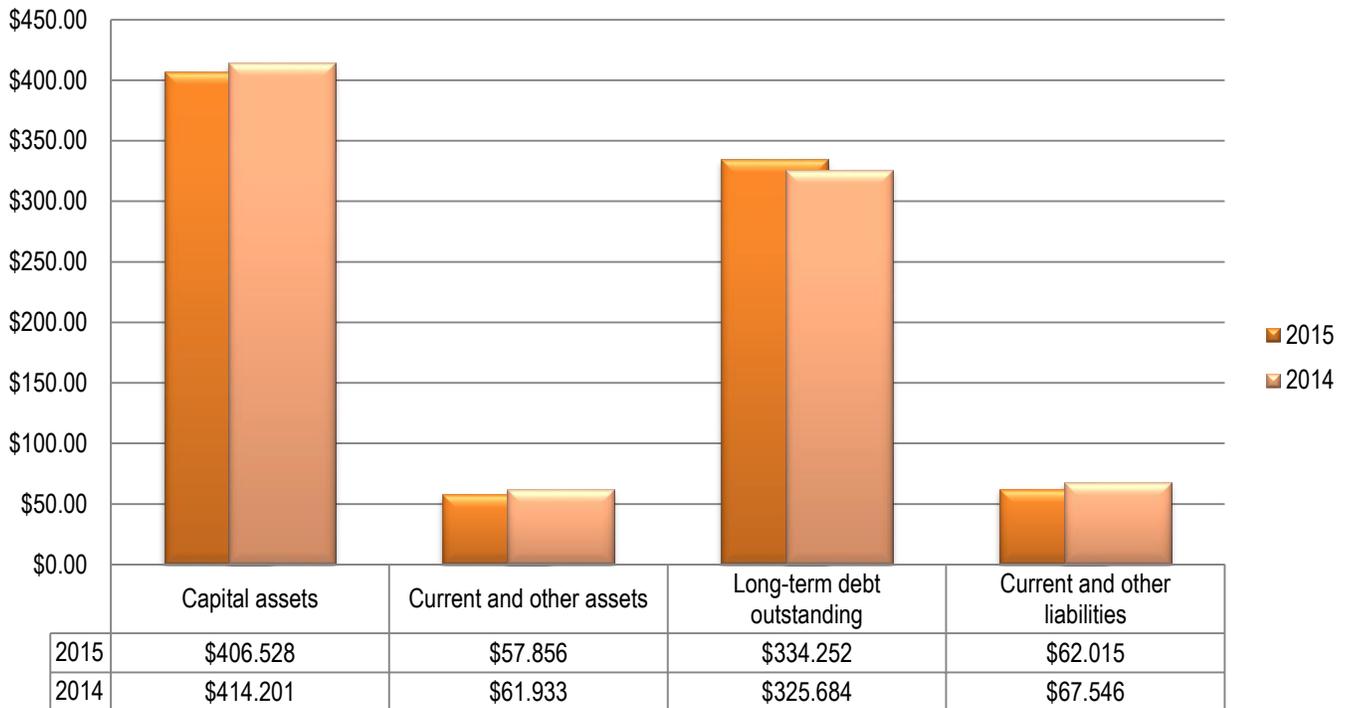
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

A component of the Municipality's net position is the negative unrestricted net position. This component consists of the excess of assets over related liabilities that are neither externally legally restricted, or invested in capital assets. This negative net position is the result of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences, claims and judgments and others.

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

The following chart summarizes the Municipality's assets and liabilities compared with the prior fiscal year:

**Components of Net Position
(In Millions)**



FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Changes in Net Position

The Municipality's net position decreased by \$4,778,231. Approximately 62% of the Municipality's total revenue came from taxes, while 36% resulted from grants and contributions, including federal aid. Also, Fees, Fines and Charges for Services provided 2%. The Municipality's largest expenses included items such as general government, health and welfare services and public works. The following table includes the composition of revenues and expenses for the fiscal years ended on June 30, 2015 and 2014:

CONDENSED STATEMENTS OF ACTIVITIES

	2015	2014	Change	%
PROGRAM REVENUES:				
Fees, Fines and Charges for services	\$ 3,032,599	\$ 3,753,702	\$ (721,103)	(19)%
Operating grants and contributions	44,081,005	35,830,758	8,250,247	23%
Capital grants and contributions	4,271,558	2,392,802	1,878,756	79%
GENERAL REVENUES:				
Property taxes	50,303,471	47,928,169	2,375,302	5%
Municipal license tax	20,214,730	18,678,758	1,535,972	8%
Sales tax	18,697,873	16,967,985	1,729,888	10%
Licenses, permits and other local taxes	4,634,306	5,509,446	(875,140)	(16)%
Grants and contributions not restricted to specific purpose	1,998,294	17,051,754	(15,053,460)	(88)%
Interest	1,558,155	691,225	866,930	125%
Others	197,613	1,940,340	(1,742,727)	(90)%
Total revenues	<u>\$ 148,989,604</u>	<u>150,744,939</u>	<u>(1,755,335)</u>	(1)%
EXPENSES:				
General government	60,928,523	58,329,709	2,598,814	4%
Public safety	12,841,368	14,244,863	(1,403,495)	(10)%
Public works	17,948,515	24,757,482	(6,808,967)	(28)%
Culture and recreation	8,608,981	10,263,045	(1,654,064)	(16)%
Health and welfare	19,126,035	20,182,008	(1,055,973)	(5)%
Urban development	8,441,408	9,127,159	(685,751)	(8)%
Education	13,062,173	14,466,869	(1,404,696)	(10)%
Training and employment	2,699,711	2,280,453	419,258	18%
Interest	10,111,121	8,770,137	1,340,984	15%
Total expenses	<u>153,767,835</u>	<u>162,421,725</u>	<u>(8,653,890)</u>	(5)%
Change in net position	(4,778,231)	(11,676,786)	6,898,555	(59)%
Net position, beginning of year	<u>82,903,993</u>	<u>94,580,779</u>	<u>(11,676,786)</u>	(12)%
Net position, end of year	<u>\$ 78,125,762</u>	<u>\$ 82,903,993</u>	<u>\$ (4,778,231)</u>	(6)%

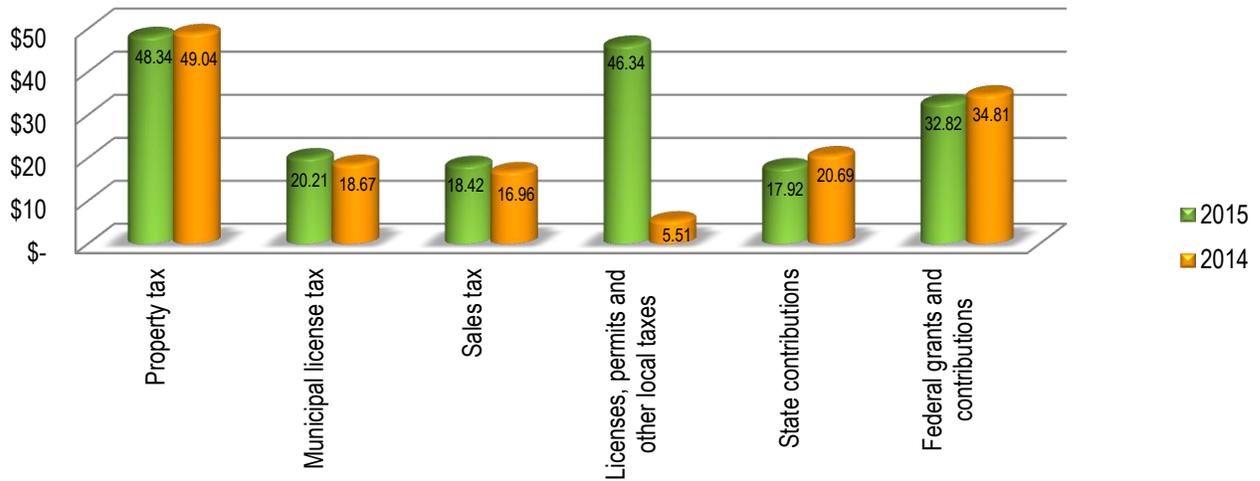
FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

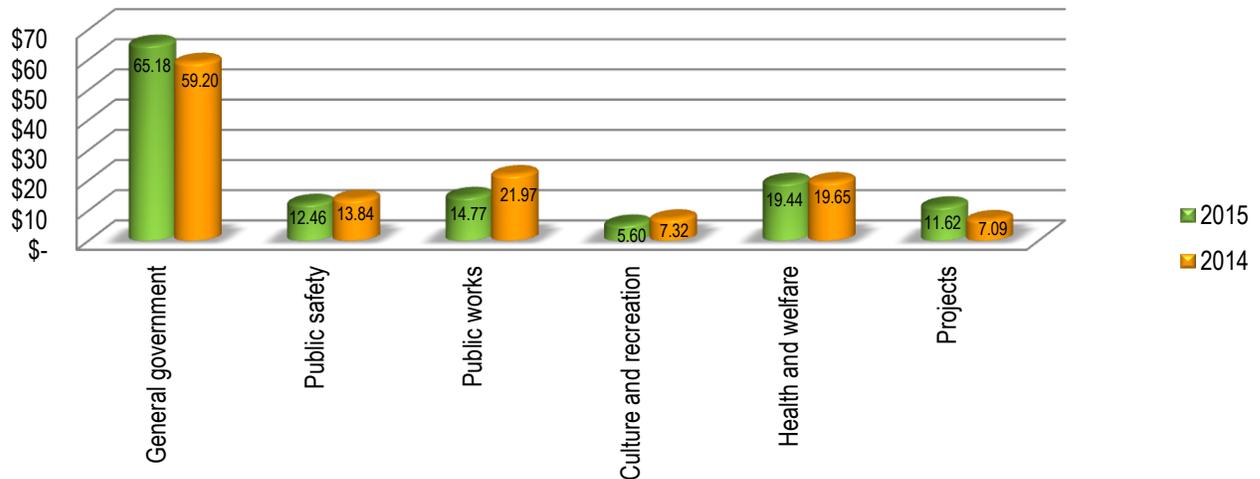
The focus of the Municipality's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following chart summarizes the Municipality's major revenues and major expenditures compared with the prior fiscal year.

Governmental Revenues (In Millions)



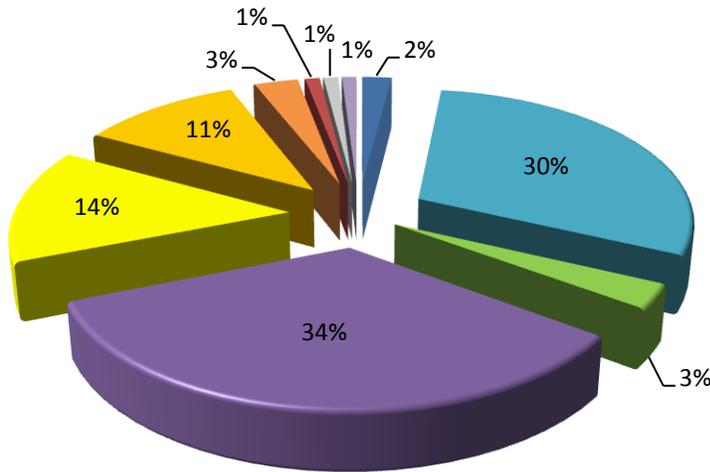
Governmental Expenditures (In Millions)



FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS (continued)

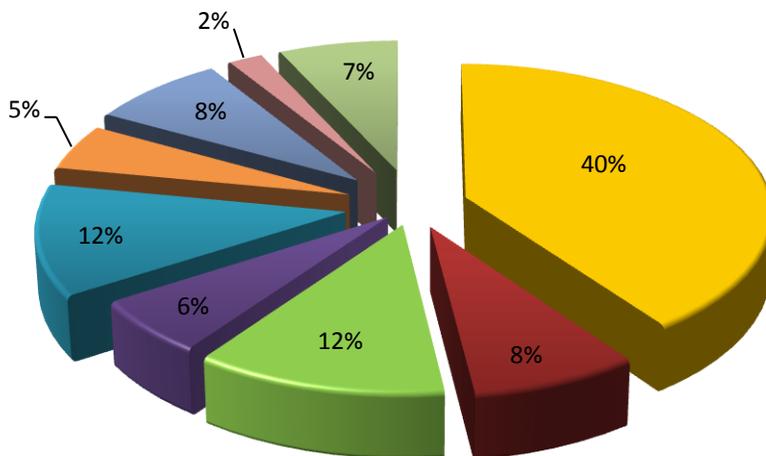
The following charts summarize the Municipality's revenues and expenses for the fiscal year ended June 30, 2015.

Revenues 2015



- Fees, Fines and Charges for services
- Operating grants and contributions
- Capital grants and contributions
- Property taxes
- Municipal license tax
- Sales tax
- Licenses, permits and other local taxes
- Grants and contributions not restricted to specific purpose
- Interest
- Others

Expenses 2015



- General government
- Public safety
- Public works
- Culture and recreation
- Health and welfare
- Urban development
- Education
- Training and employment
- Interest

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS (continued)

Fund Balances

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund deficit of \$15,115,600, a decrease of \$856,646 in comparison with the prior year. The combined fund deficit includes restricted fund balances amounting to \$36.82 million. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restriction 1) to pay for specific program purposes (\$ 20.56 million); 2) to pay for capital projects (\$2.53 million) and 3) to pay for debt services (\$13.72 million). There are committed fund balances amounting to \$119,021 that can only be used pursuant to constraints formally imposed by the Municipal Legislature is ordinances and resolutions. Consequently, since there is an excess of restricted and committed fund balances over total fund balances, a negative unassigned fund deficit of \$52.05 million was reported in the governmental funds at June 30, 2015.

Governmental funds include the General Fund, which is the main operating fund of the Municipality. As of June 30, 2015, the General Fund had an accumulated deficit of \$38,865,537 compared with the prior fiscal year of \$38,833,223.

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

Governmental funds also include the Debt Service Fund. The fund balance of the Debt Service Fund as of June 30, 2015 and 2014 amounted to \$13.72 million and \$11.78 million, respectively. The increase of \$1.94 million in the fund balance of the Debt Service Fund is the result of an increase in debt service requirements payments.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2014-2015, the Municipal Legislature approved an original budget for the General Fund of \$94.55 million. During the year, there was no amendment to include any changes in revenues that were identified during the course of the fiscal year. The budgetary comparison schedule reflected a deficiency of \$946,743 of total current revenues under operating expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

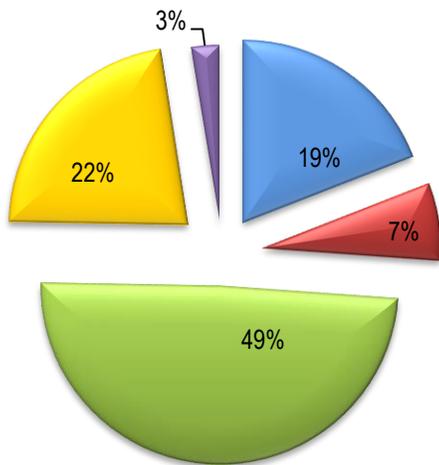
The Municipality's investment in capital assets as of June 30, 2015, amounted to \$538,097,523, which upon deduction of accumulated depreciation in the amount of \$131,568,727 produced a net book value attributable to capital assets in the amount of \$406,528,796. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. The total decrease in the Municipality's investment in capital assets for the current fiscal year represented approximately one percent (1%) of net book value. Depreciation charges for the year totaled \$10,849,223.

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)

The following chart summarizes the Municipality's capital assets for the fiscal years ended June 30, 2015 and 2014:

Capital Assets (Net of accumulated depreciation)		
	Governmental Activities	
	2015	2014
Land and improvements	\$77,615,255	\$ 78,333,657
Construction in progress	28,591,799	28,958,482
Buildings and buildings improvements	199,822,261	205,093,768
Infrastructure and infrastructure improvements	90,487,174	91,120,077
Machinery and equipment	10,012,307	10,695,760
Total	\$ 406,528,796	\$ 414,201,744



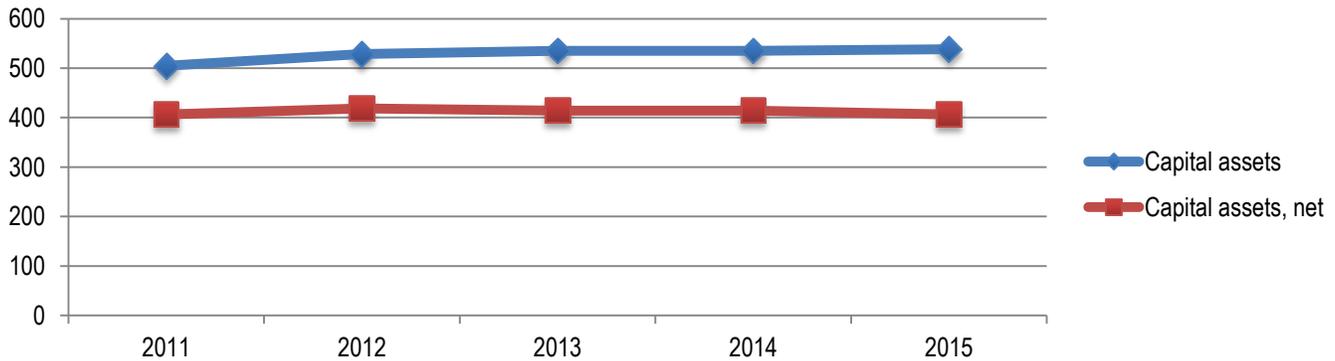
Capital Assets 2015

- Land and land improvements
- Construction in progress
- Buildings and buildings improvements
- Infrastructure and infrastructure improvements
- Machinery and equipment

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)

The following chart provides information about the behavior of the Municipality’s capital assets during the past five years.



Building, infrastructure and equipment increased by approximately \$3.54 million. Detailed information about the Municipality’s capital assets is presented in Note 12 to the basic financial statements.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in their entirety for such purposes and cannot be used for any other activities.

Debt Administration

The Commonwealth Legislature of P.R. 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. 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” as defined in Act No. 64. Such Act requires that a Municipality must have sufficient “payment capacity” to incur in additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality’s Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality’s outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a 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, constitute a first lien on the Municipality’s Basic Tax revenues. Accordingly, the Municipality’s Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality’s Redemption Fund, are not sufficient to cover such debt service.

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt Administration (continued)

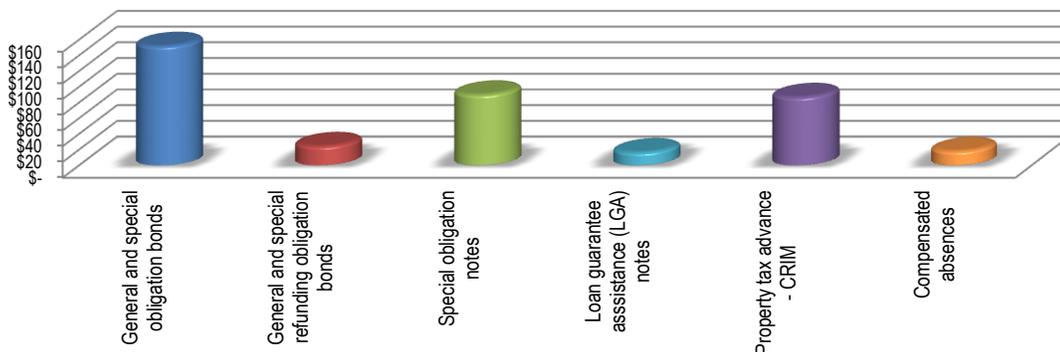
In the particular case of the Municipality of Ponce, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

On June 30, 2015, the Municipality had \$200 million in bonds, notes and other long-term debts outstanding, as compared to \$213 million in prior year, a decrease of \$13 million, as shown in table below. The Municipality paid \$12.11 million in principal and \$8.8 million in interest on that debt during the year. Under current state statutes, the Municipality required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property tax restricted for debt services.

The following chart summarizes the Municipality's long-term debt for the fiscal years ended June 30, 2015 and 2014:

Long Term Debt		
	Governmental Activities	
	2015	2014
General and special obligation bonds and notes	\$ 184,668,000	\$ 195,188,000
Loan guarantee assistance notes	16,250,000	17,844,000
Advances from CRIM	86,581,119	85,332,737
Other obligations	34,800,431	25,261,396
Interest due for accounts sold-CRIM	1,944,229	2,058,863
Total	\$ 324,243,779	\$ 325,684,996

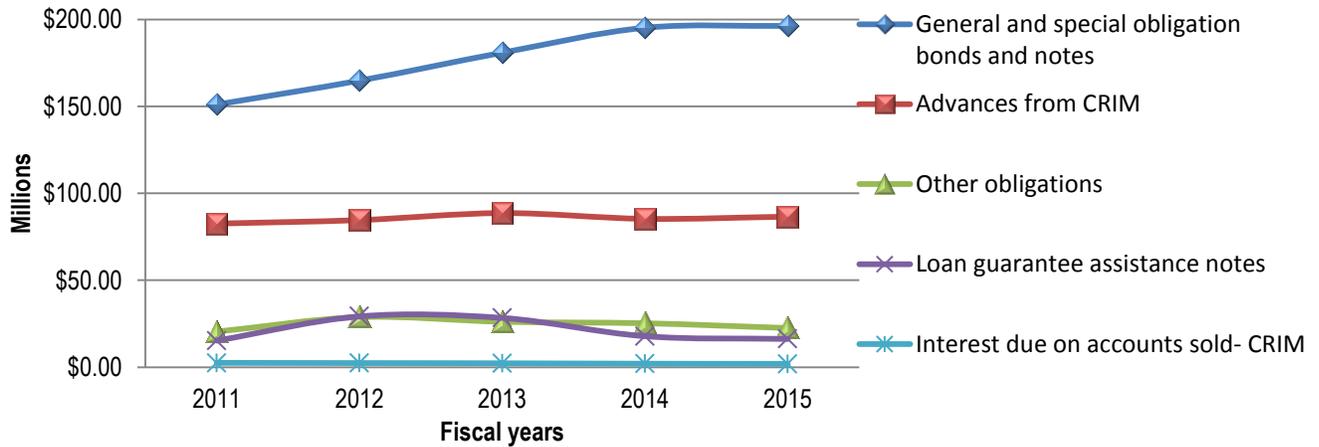
Long Term Debt 2015



CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt Administration (continued)

The following chart provides information about the behavior of the Municipality’s long-term debt during the past five years. Treasury



Other obligations include compensated absences; property tax debt, “HHS” and “HUD” payment plans for questioned costs, notes payable to governmental agencies, claims and judgments. Detailed information about the Municipality’s long-term liabilities is presented in Note 13.

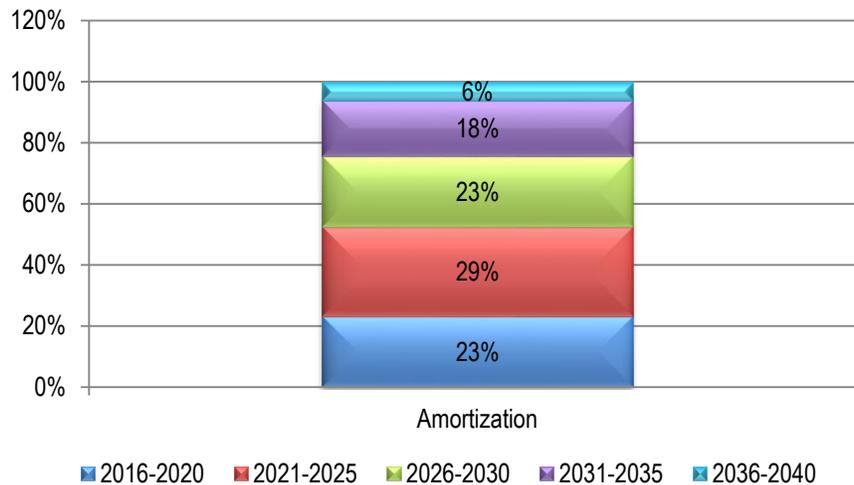
At June 30, 2015, the Municipality had \$176 million of general obligation bonds outstanding. The following chart indicates the principal amortization of the Municipality’s general obligation bonds in five-year increments.

<u>Range of Years</u>	<u>Principal Amortization</u>
2016-2020	\$ 41,250,000
2021-2025	51,631,000
2026-2030	40,821,000
2031-2035	32,192,000
2036-2040	10,818,000
Total	\$ 176,712,000

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt Administration (continued)

As can be seen in the following chart, approximately 75% of the Municipality’s outstanding general obligation bonds will be retired within the next fifteen (15) years.



The Municipality has various outstanding notes payable amounting to \$25.22 million at June 30, 2015. Those notes payable were mainly issued for the acquisition, construction and improvement of capital assets. Additional details regarding the Municipality’s long term debt can be found in Note 13.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

Puerto Rico Fiscal and Economic Growth Plan

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico established by the Governor Alejandro García Padilla by executive order EO 2015-022 submitted the Fiscal and Economic Growth Plan (FEGP), setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Commonwealth’s projected financing gaps. In order to ensure compliance with the FEGP measures, the Working group proposes the implementation of a control board and new budgetary regulations, pursuant to proposed legislations known as the Fiscal Responsibility and Economic Revitalization Act (FRERA). The reform measures proposed by the FEGP, including the creation of the control board, have been submitted to the Commonwealth Legislature for review and final approval.

On October 16, 2015, the Puerto Rico Commission of Energy (“CEPR”) approved the new guidelines for the energetic subsidy (contribution) received by the 78 municipalities of the Commonwealth from the Puerto Rico Electric Power Authority (PREPA) in lieu of the payment of municipal license taxes (“CELI”).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (continued)

New Guidelines for the Calculation of the Contribution In Lieu of Taxes ("CELI")

These guidelines limit to the subsidy to be received by the municipalities, by establishing a maximum threshold amount of energy consumption charges that can be incurred by the municipalities. Any charges in excess of that maximum threshold will be paid by the municipalities based on the prevailing service rates in effect during the billing period. If the municipalities do not pay the amounts billed, they are subject to a possible service cancellation by the PREPA.

In addition to these energy consumption limits, the CELI will not be applicable to every municipal property or installation. It will only be available for those facilities used for the rendering of not-for-profit services to the community; for corporations that provide public health services; and for the consumption charges incurred by the public lighting infrastructure. Those municipal installations and properties used for for-profit activities or occupied by not-for-profit entities that do not provide municipal services or by persons and businesses that are not municipal entities are excluded from the CELI subsidy. Finally, the guidelines require that the municipalities implement efficiency and conservation measures for a reduction of 15% in the energy consumption to be incurred in the next three fiscal years. All of these requirements are effective beginning November 16, 2015 (fiscal year 2015-16).

Port of Ponce Authority

Pursuant to Act. 156 of 2013, which amended Act 240 of 2011, the development of Port of the Americas Rafael Cordero Santiago and the Port of Ponce in general shall be the responsibility of the Ponce Port Authority. The Autonomous Municipality of Ponce, through the Ponce Port Administrative Board, is currently managing the port installations. Presently, the Municipality and the Port of Ponce Authority are engaged in an ongoing negotiation as to the terms and conditions whereby certain municipal property shall be transferred to the latter for a period of ten years, after which term, all the Ponce Ports Authority assets, including those obtained from other governmental agencies, authorities or departments, will be transferred to the Autonomous Municipality of Ponce. Ponce Port Administrative Board shall continue to operate and manage the installations until a final agreement is reached between the Authority and the international caliber port operator. The Board continues to operate the port installations under the terms of a provisional Lease Agreement executed on February 14, 2010 until a new operator is hired by the Ponce Port Authority.

FINAL COMMENTS

The new GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment to GASB Statement No. 27, were effective for the fiscal year ended June 30, 2015. This Statement requires participants of cost-sharing defined benefit pension plans that are administered through trusts that comply with certain criteria to recognize in their financial statements their proportionate share of the collective net pension liability, net pension expense and deferred outflows/inflows of resources related to pensions. The Municipality's pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not issued its audited financial statements for the fiscal year ended June 30, 2014 (the plan's measurement date), and as a result, the Municipality of Ponce could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 68. Consequently, the Municipality's financial statements do not report or disclose the required information for its pension plan for the fiscal year 2014-15.

	Governmental Activities	Component Units	
		Unaudited Port of Ponce	Patronato
Assets			
Cash and cash equivalents	\$ 1,323,001	\$ 2,457,565	\$ 440,145
Accounts receivable, net:			
Municipal license tax	920,997		
Others	580,635	208,241	3,500
Inventories		168,059	27,982
Due from:			
Commonwealth Government	5,436,408		
Federal Government	6,140,809		
Restricted assets:			
Cash and cash equivalents	9,465,407		
Cash and cash equivalents with fiscal agents	33,989,144		
Capital assets:			
Land, improvements and construction in progress	81,582,656		
Other capital assets, net of depreciation	324,946,140	2,349,743	302,036
Total capital assets	406,528,796	2,349,743	302,036
Total assets	464,385,197	5,183,608	773,663
Liabilities			
Accounts payable and accrued liabilities	22,659,877	2,296,214	80,105
Due to Commonwealth Government	18,760,480		
Unearned revenues:			
Municipal license tax	15,454,158		
Federal grants	1,320,796		
Other	17,988		85,464
Accrued interest	3,802,357		
Noncurrent liabilities:			
Due within one year	18,831,031		
Due in more than one year	305,412,748		
Total liabilities	386,259,435	2,296,214	165,569
Net Position			
Net investment in capital assets	265,450,796		
Restricted for:			
Capital projects	14,597,685	1,722,346	
Debt service	24,295,216		
Other purposes	8,582,303		
Unrestricted (deficit)	(234,800,238)	1,165,048	608,094
Total net position	\$ 78,125,762	\$ 2,887,394	\$ 608,094

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units	
					Governmental Activities	Unaudited Port of Ponce	Patronato
Primary Government							
General government	\$ 60,928,523	\$ 739,015	\$ 2,872,046		\$ (57,317,462)	\$ 1,255,473	\$ -
Public safety	12,841,368	793,090	1,325,777		(10,722,501)		
Public works	17,948,515	1,165,348		866,588	(15,916,579)		
Culture and recreation	8,608,981	308,367	1,151,323		(7,149,291)		
Health and welfare	19,126,035	12,451	20,761,377		1,647,793		
Urban development	8,441,408		3,719,362	3,404,970	(1,317,076)		
Education	13,062,173	14,328	12,061,666		(986,179)		
Training and employment	2,699,711		2,189,454		(510,257)		
Interest	10,111,121				(10,111,121)		
Total governmental activities	<u>\$ 153,767,835</u>	<u>\$ 3,032,599</u>	<u>\$ 44,081,005</u>	<u>\$ 4,271,558</u>	<u>(102,382,673)</u>	<u>1,255,473</u>	<u>-</u>
Component units							
"Port of Ponce"						1,628,234	
"Patronato"							1,165,095
Total Component Units	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>1,628,234</u>	<u>1,165,095</u>
General revenues:							
Property taxes					50,303,471		
Municipal license tax					20,214,730		
Sales tax					18,697,873		
Licenses, permits and other local taxes					4,634,306		
Grants and contribution not restricted for specific purpose					1,998,294		895,233
Interest					1,558,155	532	
Others					197,613	30,175	229,616
Total general revenues					<u>97,604,442</u>	<u>30,707</u>	<u>1,124,849</u>
Change in net position					(4,778,231)	403,468	40,246
Net position, beginning of year					82,903,993	2,483,926	567,848
Net position, end of year					<u>\$ 78,125,762</u>	<u>\$ 2,887,394</u>	<u>\$ 608,094</u>

	General Fund	Capital Projects - Bond Issuances Fund	Debt Service Fund	Health and Human Services Grants Fund	Workforce Investment Act Grants Fund	Housing & Urban Development Grants Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 1,244,861						\$ 78,140	\$ 1,323,001
Accounts receivable, net:								
Municipal licenses tax	920,997							920,997
Others	246,912						333,723	580,635
Due from:								
Commonwealth Government	1,315,900		3,816,730				303,778	5,436,408
Federal Government				1,078,201	385,024	4,325,576	352,008	6,140,809
Other funds	310,344			2,394				312,738
Restricted cash:								
Cash and cash equivalents	4,895,223			264,027		2,968,778	1,337,379	9,465,407
Cash and cash equivalents with fiscal agents	5,068,873	4,072,191	24,280,843				567,237	33,989,144
Total assets	<u>\$ 14,003,110</u>	<u>\$ 4,072,191</u>	<u>\$ 28,097,573</u>	<u>\$ 1,344,622</u>	<u>\$ 385,024</u>	<u>\$ 7,294,354</u>	<u>\$ 2,972,265</u>	<u>\$ 58,169,139</u>

	General Fund	Capital Projects - Bond Issuances Fund	Debt Service Fund	Health and Human Services Grants Fund	Workforce Investment Act Grants Fund	Housing & Urban Development Grants Fund	Other Governmental Funds	Total Governmental Funds
Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)								
Liabilities:								
Accounts payable and accrued liabilities	\$ 18,348,340	\$ 1,533,458		\$ 336,167	\$ 83,730	\$ 1,533,996	\$ 824,186	\$ 22,659,877
Due to:								
Commonwealth Government	18,833,669					1,092		18,834,761
Other funds					23,178	240,864	48,696	312,738
Matured general obligations:								
Bonds and notes			8,315,000					8,315,000
Accrued interest			3,802,357					3,802,357
Unearned revenues:								
Municipal license tax	15,454,158							15,454,158
Federal grants					201,245	741,438	378,113	1,320,796
Others	10,991					6,997		17,988
Total liabilities	52,647,158	1,533,458	12,117,357	336,167	308,153	2,524,387	1,250,995	70,717,675
Deferred Inflows of Resources:								
Unavailable revenues - Commonwealth Government	22,643		2,257,033					2,279,676
Unavailable revenues - Others	198,846						88,542	287,388
Total deferred inflows of resources	221,489	-	2,257,033	-	-	-	88,542	2,567,064
Fund balances (deficit):								
Restricted	13,069,933	2,538,733	13,723,183	1,008,455	76,871	4,769,967	1,632,728	36,819,870
Committed	119,021							119,021
Unassigned	(52,054,491)							(52,054,491)
Total fund balances (deficit)	(38,865,537)	2,538,733	13,723,183	1,008,455	76,871	4,769,967	1,632,728	(15,115,600)
Total liabilities, deferred inflows of resources and fund balances (deficit)	\$ 14,003,110	\$ 4,072,191	\$ 28,097,573	\$ 1,344,622	\$ 385,024	\$ 7,294,354	\$ 2,972,265	\$ 58,169,139

	General Fund	Capital Projects - Bond Issuances Fund	Debt Service Fund	Health and Human Services Grants Fund	Workforce Investment Act Grants Fund	Housing & Urban Development Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Property taxes	\$ 31,612,445		\$ 16,729,094					\$ 48,341,539
Municipal license taxes	20,214,730							20,214,730
Sales tax	15,835,316		2,590,532					18,425,848
Royalties and others	1,341,647							1,341,647
Licenses, permits and other local taxes	4,634,306							4,634,306
Charges for services and rents	1,245,974						538,652	1,784,626
Fines and forfeitures	77,384							77,384
Interest	1,384,744	68,033	16,852			48,742	39,784	1,558,155
Intergovernmental revenue:								
State Contributions	17,340,902				93,000		487,283	17,921,185
Federal grants and contributions				12,048,813	2,096,454	14,316,147	4,364,303	32,825,717
Others							189,653	189,653
Total revenues	93,687,448	68,033	19,336,478	12,048,813	2,189,454	14,364,889	5,619,675	147,314,790
Expenditures								
Current:								
General government	65,011,009					32,144	141,884	65,185,037
Public safety	11,244,285						1,221,530	12,465,815
Public works	13,732,915	652,221					386,947	14,772,083
Culture and recreation	5,582,469						23,462	5,605,931
Health and welfare	8,148,917			545,074		8,825,443	1,928,927	19,448,361
Urban development	2,008,838					2,679,001	2,209,793	6,897,632
Education	1,565,233			11,281,103				12,846,336
Training and employment	14,221				2,656,241		29,249	2,699,711
Capital outlays:								
Special Communities	1,046,603						115,789	1,162,392
Projects	253,561	819,014					46,002	1,118,577
Debt service:								
Principal			9,330,000			1,594,000		10,924,000
Interest			8,346,769			515,970		8,862,739
Total expenditures	108,608,051	1,471,235	17,676,769	11,826,177	2,656,241	13,646,558	6,103,583	161,988,614

	General Fund	Capital Projects - Bond Issuances Fund	Debt Service Fund	Health and Human Services Grants Fund	Workforce Investment Act Grants Fund	Housing & Urban Development Grants Fund	Other Governmental Funds	Total Governmental Funds
Excess (deficiency) of revenues over (under) expenditures	(14,920,603)	(1,403,202)	1,659,709	222,636	(466,787)	718,331	(483,908)	(14,673,824)
Other financing sources (uses)								
Transfers in	2,006,780	1,380	1,901,015	522,587	167,844	20,979	35,156	4,655,741
Transfers out	(2,648,961)	(283,412)	(1,625,717)			(49,376)	(48,275)	(4,655,741)
Issuance of repayment plan note payable - P.R. - Retirement System Administration	7,487,763							7,487,763
Issuance of repayment plan note payable - Landfill Obligation	8,042,707							8,042,707
Total other financing sources (uses)	14,888,289	(282,032)	275,298	522,587	167,844	(28,397)	(13,119)	15,530,470
Excess (deficiency) of revenues over expenditures and other financing sources	(32,314)	(1,685,234)	1,935,007	745,223	(298,943)	689,934	(497,027)	856,646
Fund balance (deficit), beginning	(38,833,223)	4,223,967	11,788,176	263,232	375,814	4,080,033	2,129,755	(15,972,246)
Fund balance (deficit), ending	\$ (38,865,537)	\$ 2,538,733	\$ 13,723,183	\$ 1,008,455	\$ 76,871	\$ 4,769,967	\$ 1,632,728	\$ (15,115,600)

Total Fund Balances (Deficit) - Governmental Funds **\$ (15,115,600)**

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:

Non-depreciable capital assets	\$ 81,582,656	
Depreciable capital assets	456,514,867	
Accumulated depreciation	<u>(131,568,727)</u>	
Total capital assets		406,528,796

Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:

Due from commonwealth government:		
Municipal Revenues Collection Center (CRIM)	2,257,033	
Property taxes - General Fund	22,643	
P.R. Department of Education - Office for the Improvement of Public Schools	82,301	
Christmas bonus reimbursement	145,281	
Others	<u>14,087</u>	2,521,345

Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General and special obligation bonds and notes payable	(192,483,000)	
Property tax advances-CRIM	(86,581,119)	
Property tax debt	(1,113,132)	
Retirement System Administration	(1,833,415)	
U.S. Department of Health and Human Services - Questioned Costs 2005-2006 (Payment Plan)	(15,457)	
P.R. Aqueduct & Sewer Authority note payable	(107,000)	
Interest due for accounts sold-CRIM	(1,944,229)	
US Department of Housing and Urban Development - Questioned Costs 2013-2014 (Payment Plan)	(136,200)	
Puerto Rico Building Authority	(3,592,129)	
Claims and judgments	(1,443,425)	
Compensated Absences	(17,823,593)	
Landfill Obligations - Payment Plan	(6,611,266)	
Christmas bonus payable	(1,475,622)	
P.R. Department of Labor repayment plan note payable	<u>(649,192)</u>	
Total long-term liabilities		<u>(315,808,779)</u>

Total net position of governmental activities **\$ 78,125,762**

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE**

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the Year Ended June 30, 2015**

Amounts reported for governmental activities in the Statement of Activities are different because:	\$	856,646
Governmental funds report capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for capital assets	\$ 3,284,700	
Less: current-year depreciation	<u>(10,849,223)</u>	(7,564,523)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Municipal Revenues Collection Center (CRIM)	2,257,033	
Property taxes - General Fund	22,643	
P.R. Department of Education - Office for the Improvement of Public Schools	82,301	
Donations of capital assets	7,960	
Christmas bonus reimbursement (current year)	145,281	
Others	<u>59,806</u>	2,575,024
Revenues reported in the funds that are not reported as revenues in the Statement of Activities:		
Treasury Department - Sales Tax	(45,719)	
Royalties and Others	(176,299)	
P.R. Department of Education - Office for the Improvement of Public Schools	(56,684)	
Christmas bonus reimbursement (prior year)	<u>(621,508)</u>	(900,210)
Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Position, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities.		
		(116,385)
Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:		
Matured bonds and notes principal payments (net change)		(1,070,000)
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:		
General obligation bonds and notes	12,114,000	
Other long-term liabilities	<u>11,348,026</u>	23,462,026
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:		
Compensated absences	(3,178,688)	
Retirement System Administration	(7,487,763)	
Christmas bonus	(1,475,622)	
Claims and judgments	(317,797)	
US Department of Housing Development	(269,850)	
Landfill Obligations	(8,042,707)	
Property tax advances - CRIM (accrued interest)	<u>(1,248,382)</u>	(22,020,809)
Change in Net Position of Governmental Activities	\$	<u>(4,778,231)</u>

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Autonomous Municipality of Ponce, ("the Municipality") was founded in 1692. The Municipality's government system consists of an executive and legislature body. A Mayor and sixteen (16) members of the Municipal Legislature, who are elected for a four-year term, govern the Municipality. The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, economic development, education, and other miscellaneous services.

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its governmental accounting and financial reporting standards which, along with subsequent GASB Statements and Interpretations, constitute GAAP for governmental entities.

A. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Autonomous Municipality of Ponce (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

1. The primary government appoints a voting majority of the entity's governing body, and either:
 - A financial benefit/ burden exist between the primary government and the entity or
 - The primary government can impose its will on the entity.
2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

In addition, "special criteria" applies when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial reporting entity (continued)

3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Legally separate, tax-exempt organizations that do not meet the above special criteria should still be included as a component unit if the financial statements of the primary government would be misleading without them.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component units' balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government ("*blended component units*"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as blended if meets any of the following criteria:

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
 - A financial benefit/ burden exist between the primary government and the entity or
 - Management of the primary government has operational responsibility for the primary government.
2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
3. The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units does not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("*discretely component units*"). Legally separate, tax-exempt organizations that meet the special criteria should be included as *discretely component units*.

Based on the above criteria, there are two component units that should be included as part of the financial statements.

The Municipality's two component units are detailed below. The "Port of Ponce" is not included in the financial statements.

- **Port of Ponce** was formed as a result of Ordinance No. 258 (Series 1911), dated November 20, 1911, and enacted by the Executive Council of Puerto Rico, which granted the Municipality authority to construct, maintain and operate a pier, on the shore of the Ponce Harbor. The operations of the port facilities are financed principally through charges to users.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Financial reporting entity (continued)

- “**Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D. (“Patronato”)**” was incorporated on July 28, 1995, as special nonprofit corporation for conservation, protection and development of a museum on Castillo Serrallés and Cruceta El Vigía de Ponce, which are Municipality's buildings. In February 2002, the Municipality signed a proxy contract with Patronato for custody of these municipal properties, for which it receives a monthly administration fee for operation of the museum. The Municipal Legislature authorized the creation of a special corporation on Resolution No. 179. (Series 2001-02).

Separate financial statements of the Port of Ponce component unit could not be obtained for presentation in the government-wide financial statements. The financial statements of the “Patronato” were audited by another auditing firm that issued a report on the said statements on November 13, 2014. The postal and physical addresses of both component units are indicated below:

Port of Ponce

Road 10 final
Playa de Ponce
Ponce, Puerto Rico 00731

Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D.

(Patronato) El Vigía Street No. 17
Ponce, Puerto Rico 00730

B. Financial statement presentation, measurement focus and basis of accounting

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus:

Management's Discussion and Analysis

It provides a narrative introduction and analytical overview of the Municipality's financial activities.

Basic financial statements

The basis financial statements include both the government-wide and fund financial statements. Both sets of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

Government-wide Financial Statements (GWFS)

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses in the period in which the associated liability is incurred, regardless of the timing of related cash flows. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. As a policy, indirect expenses are not allocated in the Statement of Activities. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are: charges for services, fees, rent, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred).

In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

Fund Financial Statements (FFS)

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criteria, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

General Fund - is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund.

It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Capital Projects Bond Issuances Fund— This fund is used to account and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by general obligation bond proceeds. The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from other Municipality's operating activities.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

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

Health and Human Services Grants Fund ("HHS") - This fund accounts for revenue sources provided by US Health and Human Services Department to provide comprehensive health, educational, nutritional, social and other services to economically disadvantaged pre-school children so that the children will attain overall social competence.

Workforce Investment Act Grants Fund ("WIA") - This fund accounts for revenue sources provided by the "Consejo Desarrollo Ocupacional y Recursos Humanos" (state pass-through agency of the US Department of Labor) to help people access the tools they need to manage their careers through information and high quality services and to help US companies find skilled workers.

Housing & Urban Development Grants Fund ("HUD") - This fund accounts for revenue sources provided by US Housing and Urban Development Department for the development of viable urban communities, decent housing, suitable living environments, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

The FFS are accounted for using the current financial resources measurement focus and the modified-accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available).

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

The Municipality reports unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants, if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due and (2) vested compensated absences, claims and judgments and special termination benefits, which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the GWFS, the expense and related accrual liability for long-term portions of debt must be included).

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds of the FFS. Likewise, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are also not accounted for in the FFS.

Since the FFS are presented on a different measurement focus and basis of accounting than the GWFS, reconciliation is necessary to explain the adjustments needed to transform the FFS into the GWFS. This reconciliation is part of the financial statements.

Notes to financial statements

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information (RSI)

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability, and the Schedule of Municipality Contributions, as required by GASB.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

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

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

Capital Projects Fund – is a governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Deposits and investments

The Municipality's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the GDB.

E. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

F. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the general and debt service funds represent property tax revenues of the current fiscal year collected by the CRIM on the subsequent fiscal year. Amounts due from Commonwealth and federal governments reported in the special revenue or capital project funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Interfund receivables and payables

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

Advances between funds, as reported in the fund financial statements, if any, are reported as “nonspendable” in the fund balance section of the Balance Sheet to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Inventories

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Position, as management believes is not significant.

I. Capital assets

Capital assets reported in the governmental activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items). The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than \$100 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Buildings and site improvements	20-50 years
Land improvements	20-30 years
Infrastructure	20-50 years
Machinery and equipment	5- 20 years

There is no depreciation recorded for land and construction in progress.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital assets (continued)

Works of art and historical treasures- At June 30, 2015, the Municipality had the following works of art, historical treasures, and similar assets:

- “Centro Ceremonial Indígena de Tibes” (Period 1200 AC to 1493 AC) – the collection has skeletons, charms, "petroglifos" and ceremonial park of Taino Indian culture.
- “Museo Antiguo Parque de Bombas” (1882) – the collection has pictures, fire equipments, fireman car and embellishing.
- “Museo Castillo Serrallés” (1930-1934) – the collection has puertorrican and international decorative arts, Serrallés’ Family objects, documents and machinery of Mercedita Sugar Plantation.
- “Panteón Nacional Ramón Baldorioty de Castro” (1847-2005) – collections show funeral arts of the XIX Century, sculptures and work of arts about “Ponceños Ilustres”, pictures and documents about Cemetery history and rest of remarkable persons as Ramón Baldorioty de Castro, Salvador de Vives and others.
- “Museo de la Historia de Ponce” (Collections period from 1200 AG to the end of XIX Century) - collections have documents, pictures, and works of art that show the evolution of the city.
- “Museo Pancho Coimbre” (Beginning XX Century) - collections have memorabilia of baseball player Francisco "Pancho" Coimbre, sport equipment, pictures and gallery of "immortals" of Ponce's Sport's history.
- City Hall (Century XVIII to XXI) - collections have Ponce's former mayors paintings in oil colors, works of art of Miguel Pou, Azaustre, Manuel Sierra and Julio Ojeda.
- Public Art (1923-2004) - collections have sculptures located in public parks, avenues and public buildings.

These collections constitute culture patrimony of the Municipality acquired by purchases and/or donations. The Municipality took the option not to capitalize work of arts and historical treasures due to the patrimony's value for future generations.

In accordance with current accounting standards, capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Deferred outflows/inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
2. **Unavailable revenue reported under the modified-basis of accounting** – Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.
3. **Deferred outflows/inflows of resources related to pensions** – Amounts reported for changes in the calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Municipality's contributions and proportionate share of contributions; and e) Municipality's contributions subsequent to the measurement date.

K. Long-term obligations

The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and landfill closure and post closure care costs.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave.

Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

M. Claims and judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

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1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Net position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted net position: The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) 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. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

Unrestricted net position: Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

O. Net position flow assumption

Sometimes, the government will fund outlays for a particular purpose from both restricted (restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Fund balances

The GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions (“GASB No. 54”) establish accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

- Nonspendable:** Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted:** Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government’s highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- Assigned:** Amounts that are constrained by the Municipality’s intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government’s highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality’s policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Fund balances (continued)

Unassigned: Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: 1) such resources meet the other criteria for those classifications, as described above and 2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2015.

Q. Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

R. Accounting for pension costs

The Municipality adopted the provisions of GASBS No. 68, Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27, and GASBS No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which amended GASBS No.68. The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, the net pension liability, pension expense and deferred outflows/inflows of resources recognized in the accompanying basic financial statements are equal to the Municipality's proportionate shares of the collective net pension liability, pension expense and collective deferred outflows/inflows of resources reported for the pension plans' trust by the plan's administrator as of the measurement date. In addition, if the Municipality's annual contributions are less than the statutorily required amounts, a liability is recorded for any unpaid balances.

For the purpose of applying the requirements of GASBS Nos. 68 and 71, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS), a multi-employer hybrid defined contribution plan in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of this retirement system since the majority of the participants in the aforementioned pension trust fund are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement system are part of the Commonwealth's financial reporting entity.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Accounting for pension costs (continued)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the ESR plan and additions to/reductions from the ESR plan's fiduciary net position have been determined on the same basis as they are reported by the ESR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

S. Interfund and intra-entity transactions

The Municipality has the following types of transactions among funds:

- a. **Operating transfers** - Legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.
- b. **Intra-entity transactions** - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

T. Risk financing

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Under Law Num. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality's commercial insurance and health plan coverages are procured and negotiated through a single insurance broker. The broker obtains quotes from the different insurance companies and the Municipality's management makes the selection based on coverage and price. The total cost of the annual premiums is financed through a payment plan made with an insurance financing company, and the monthly payments are deducted from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. The annual premium is also deducted from the monthly advances by the CRIM.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability or death because of work or employment-related accidents or due to a non-occupational disability. The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks by each employee covered by law.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

U. Use of Estimates

The preparation of the basic financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

V. Future adoption of accounting pronouncements

The GASB has issued the following statements, which the Municipality has not yet adopted:

1. **GASB Statement No. 72 “Fair Value Measurement and Application.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
2. **GASB Statement No. 73 “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.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016), except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
3. **GASB Statement No. 74 “Financial Reporting for Postemployment Benefit Plans Other Than Pensions.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
4. **GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (fiscal year ended June 30, 2018).
5. **GASB Statement No. 76 “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
6. **GASB Statement No. 77 “Tax Abatement Disclosures.”** The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (fiscal year ended June 30, 2017).

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

W. Subsequent events

Subsequent events have been evaluated through December 31, 2015 which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB. The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2015, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. Therefore, the Municipality's management has concluded that at June 30, 2015 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015. Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits – The Municipality’s maintains balances of \$6,140,084 in the General Fund, \$264,027 in the Health and Human Services Grants, \$2,968,778 in the Housing & Urban Development Grants and \$1,415,519 on Others Funds. All balances are fully collateralized at June 30, 2015.

The deposits at GDB of \$5,068,873 in the General Fund, \$4,072,191 in the Capital Projects Fund, \$24,280,843 in the Debt Service Fund and \$567,237 in the Others Funds, are unsecured and uncollateralized, as no collateral is required to be carried by the Governmental Development Bank (GDB).

3. RECEIVABLES

A. Municipal License Tax - The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$3,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2015, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2015, net of allowance for uncollectible accounts.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as unearned revenues. The amount \$920,997 represents municipal license taxes from the current and prior years that were not collected as of June 30, 2015.

B. Others accounts receivable – The \$580,635 reported as other accounts receivable consists of the following:

<u>Description</u>	<u>Amount</u>
General Fund:	
Rents Receivable	\$ 114,580
Returned check - without funds	132,331
Total	\$ 246,911
Others:	
Government Development Bank	208,885
Returned check - without funds	124,838
Total	\$ 333,723

4. DUE FROM GOVERNMENTAL ENTITIES:

A. Amounts due from governmental entities as of June 30, 2015 are as follows:

<u>Commonwealth government:</u>	<u>Amount</u>
Municipal Revenues Collection Center (CRIM)	3,816,730
PR Department of Justice "Ponce en Marcha"	740,287
PR Department of Education – Office for the Improvement of Public Schools	387,416
PR Department of Education – Fishing	159,161
PR Emergency Management Agency - 911	86,200
PR DTOP – Multas	58,440
PR Department of Labor Law 52	53,565
PR Department of Justice – VOCA	30,932
PR Department of Education –Transportation	25,561
PR Department of Family	17,753
Instituto de Cultura Puertorriquena	4,100
Others	<u>56,263</u>
Total due from commonwealth government	<u>\$ 5,436,408</u>

<u>Federal governments:</u>	<u>Amount</u>
US Department of Housing and Urban Development - CDBG	\$ 2,799,746
US Department of Housing and Urban Development - HOME	915,746
US Homeland Security	642,379
US Workforce Investment Act Grant	385,024
US Health and Human Services - Ryan White	312,622
US Health and Human Services - Head Start	238,036
USA Federal Transit Administration	131,856
Pass-through Commonwealth of Puerto Rico - Child and Adult Care Food Program	86,371
Pass-through Commonwealth of Puerto Rico - Bulletproof Best Partnership	85,829
US COPS Hiring Program	38,060
US Department of Housing and Urban Development - Emergency Shelter	30,469
Others	<u>474,671</u>
Total due from federal government	<u>\$ 6,140,809</u>

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related note 8.

5. INTERFUND TRANSACTIONS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds” (i.e., current portion of interfund loans).

Interfund receivables and payables at June 30, 2015 are summarized as follows:

a. Due from/to other fund:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 310,344	
Health and Human Services Grants Fund	2,394	
Housing & Urban Development Grants Fund		240,864
Workforce Investment Act		23,178
Others Governmental Funds		<u>48,696</u>
Total	<u>\$ 312,738</u>	<u>\$ 312,738</u>

b. Transfer in/out to other fund:

Following is a summary of interfund transfers for the year:

<u>Originating Fund</u>	<u>Receiving Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Transfer of funds to cover debt service payments	\$ 1,901,015
General Fund	HHS Fund	Transfer of funds for to cover bonus and fringe benefits	522,587
General Fund	WIA Fund	Transfers of funds for cover payroll and fringe benefits	167,844
General Fund	HUD Fund	Transfers of funds for special funds outlays	20,979
General Fund	Others Funds	Transfers of funds for special funds outlays	35,156
Debt Service Fund	General Fund	Available in sinking fund for commitments	1,625,717
General Fund	Capital Projects –Bond Issuance Fund	Transfer of funds for capital outlays	1,380
Capital Projects –Bond Issuance Fund	General Fund	Available earned interest for commitments	283,412
Others Fund	General Fund	Transfer funds for special projects	<u>97,651</u>
Total			<u>\$ 4,655,741</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015 are summarized as follows:

<u>Funds</u>	<u>Accounts Payable</u>	<u>Accrued Liabilities</u>	<u>Total</u>
General fund	\$ 15,596,089	\$ 2,752,251	\$ 18,348,340
Capital projects fund	1,533,458		1,533,458
HHS program	285,742	50,425	336,167
WIA program	83,730		83,730
HUD program	1,303,897	230,099	1,533,996
Other governmental funds	700,558	123,628	824,186
Total accounts payable and accrued liabilities	\$ 19,503,474	\$ 3,156,403	\$ 22,659,877

7. DUE TO GOVERNMENTAL ENTITIES

The amounts due to other governmental entities in the total governmental funds include the following:

<u>Governmental Entity</u>	<u>Amount</u>
PR Aqueduct and Sewer Authority	\$ 9,227,851
PR Retirement System Administration	5,338,548
Department of Human Resources	1,969,224
Puerto Rico Buildings Authority	1,841,632
PR Department of Treasury	207,753
Puerto Rico Telephone Company	138,327
Commonwealth of Puerto Rico Employee Association	86,068
PR General Services Administration	7,144
Others	18,214
Total	\$ 18,834,761

8. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental funds' financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	<u>Property Taxes</u>	<u>Commonwealth Government</u>	<u>Federal Government</u>
Major fund - General Fund:			
Property taxes – General Fund	\$ 22,643		
P.R. Department of Treasury – Christmas bonus reimbursement		145,281	
Others		53,565	
Major fund – Debt Service Fund:			
Municipal Revenue Collection Center (CRIM) – property taxes	\$ 2,257,033		

8. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS (CONTINUED)

	<u>Property Taxes</u>	<u>Commonwealth Government</u>	<u>Federal Government</u>
Major fund – Other Governmental Fund			
P.R. Department of Education – Office for the Improvement of Public Schools			82,301
Others			6,241
	<u>\$ 2,279,676</u>	<u>\$ 198,846</u>	<u>\$ 88,542</u>

9. INTERGOVERNMENTAL REVENUES

Following is detail of intergovernmental revenues:

<u>State agencies:</u>	<u>Amount</u>
Puerto Rico Electric Power Authority	\$ 12,963,014
Subsidy and Lottery of Puerto Rico – CRIM	2,289,862
Reimbursement from the Commonwealth of Puerto Rico of Christmas bonus expenditures	1,219,232
School Infrastructure Development	664,040
Department of Emergency Center -911	156,542
Department of Public Housing	102,573
PR Department of Justice – VOCA	80,773
Puerto Rico Legislative Joint Resolutions	33,405
Others	<u>411,744</u>
Total governmental funds	<u>\$ 17,921,185</u>

<u>Federal agencies:</u>	<u>Amount</u>
HHS – Head Start & Early	\$ 12,488,321
HUD – Section 8 Choice Voucher	8,748,901
HUD – CDBG – Entitlement	3,008,963
Department of Labor – Workforce Investment Act	1,996,427
HUD – Home Program	1,919,748
Department of Agriculture – USDA	1,198,718
USA Federal Transit Administration	1,101,103
Department of Justice – Homeland Security	938,004
HUD – Emergency Shelter	271,409
FEMA	237,395
OCAM – CDBG – Disaster Recovery	170,464
HHS – Ryan White	70,293
Others	<u>675,971</u>
Total governmental funds	<u>\$ 32,825,717</u>

The \$189,653 reported as other intergovernmental revenues consists of others service charges.

10. UNEARNED REVENUES

A. The amounts reported as unearned revenues as of June 30, 2015 are detailed as follows:

	<u>Amount</u>
Major fund – General fund:	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	<u>\$ 15,454,158</u>

B. Federal Grants – The unearned revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have been incurred. Unearned revenues from the federal government are as follows:

	<u>Amount</u>
Program Description:	
US Department of Housing and Urban Development - HOME	\$ 709,590
US Department of Homeland Security – Disaster Recovery Assistance	205,110
US Department of Labor – Workforce Investment Act Grants Fund	201,245
US Department of Housing and Urban Development - Emergency Shelter	31,315
Others	173,536
Total	<u>\$ 1,320,796</u>

C. Other amounts reported as unearned revenues as of June 30, 2015 are detailed as follows:

	<u>Amount</u>
Program Description:	
PR Department of Housing	\$ 17,988
Total	<u>\$ 17,988</u>

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11. FUND BALANCE (DEFICIT)

As of June 30 2015, fund balance (deficit) is comprised of the following:

FUND BALANCE (DEFICIT)	GENERAL FUND	CAPITAL PROJECTS FUND- BOND ISSUES	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND GRANTS	WORKFORCE INVESTMENT ACT GRANTS	HOUSING & URBAN DEVELOPMENT GRANTS	OTHER FUNDS	TOTAL GOVERNMENTAL FUNDS
Restricted for:								
General Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,856	\$ 14,856
Public Safety							56,285	56,285
Public Works	7,224,562						366,521	7,591,083
Health and Welfare	98,123					3,505,145		3,603,268
Urban Development	1,523,978					1,264,822	754,158	3,542,958
Culture and Recreation	1,112,523							1,112,523
Education	25,631			1,008,455	76,871			1,110,957
Capital outlays:								
Special Communities	1,615,530							1,615,530
Projects	1,469,586	2,538,733					440,908	4,449,227
Debt Service			13,723,183					13,723,183
Committed:								
General Government	66,433							66,433
Culture and Recreation	52,588							52,588
Unassigned	(52,054,491)							(52,054,491)
Total Fund Balance (Deficit)	<u>\$ (38,865,537)</u>	<u>\$ 2,538,733</u>	<u>\$ 13,723,183</u>	<u>\$ 1,008,455</u>	<u>\$ 76,871</u>	<u>\$ 4,769,967</u>	<u>\$ 1,632,728</u>	<u>\$ (15,115,600)</u>

12. CAPITAL ASSETS

Capital assets, those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$100 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2015, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2014	Additions	Reclassifications/ Retirements	Balance June 30, 2015
Capital assets, not being depreciated:				
Construction in progress	\$ 28,958,482	\$ 1,272,611	\$ (1,639,294)	\$ 28,591,799
Land	52,990,857			52,990,857
Total capital assets not being depreciated	81,949,339	1,272,611	(1,639,294)	81,582,656
Capital assets, being depreciated:				
Buildings and building improvements	255,714,016			255,714,016
Land improvements				
Site improvements	31,003,412			31,003,412
Infrastructure and infrastructure improvements	109,442,491	1,522,909		110,965,400
Machinery and equipment	56,811,990	2,020,049		58,832,039
Total capital assets being depreciated	452,971,909	3,542,958		456,514,867
Less accumulated depreciation for:				
Buildings and building improvements	(50,620,248)	(5,271,507)		(55,891,755)
Land improvements				
Site improvements	(5,660,612)	(718,402)		(6,379,014)
Infrastructure and infrastructure improvements	(18,322,414)	(2,155,812)		(20,478,226)
Machinery and equipment	(46,116,230)	(2,703,502)		(48,819,732)
Total accumulated depreciation	(120,719,504)	(10,849,223)		(131,568,727)
Total capital assets being depreciated, net	332,252,405	(7,306,265)		324,946,140
Governmental activities capital assets, net	\$ 414,201,744	\$ (6,033,654)	\$ (1,639,294)	\$ 406,528,796

12. CAPITAL ASSETS (continued)

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 2,201,703
Public safety	552,323
Public works	3,229,360
Health and welfare	647,550
Culture and recreation	3,384,846
Urban development	53,317
Economic Development	550,466
Education	<u>229,658</u>
Total depreciation expense-governmental activities	<u>\$ 10,849,223</u>

13. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015 was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 126,052,000		\$ (6,100,000)	\$ 119,952,000	\$ 4,665,000
General refunding obligation bonds	8,010,000		(350,000)	7,660,000	375,000
Special refunding obligations bonds	17,430,000		(1,010,000)	16,420,000	1,195,000
Special obligation bonds	9,035,000		(440,000)	8,595,000	465,000
Special obligation bonds – IVU	23,670,000		(600,000)	23,070,000	645,000
Special obligation notes – IVU	3,241,000		(555,000)	2,686,000	595,000
Special obligation notes	7,750,000		(1,465,000)	6,285,000	1,575,000
Special obligation notes – LGA	17,844,000		(1,594,000)	16,250,000	1,624,000
Property tax advances- CRIM	85,332,737	1,248,382		86,581,119	
Property tax debt- CRIM	1,113,132			1,113,132	1,113,132
Interest due for accounts sold- CRIM	2,058,863		(114,634)	1,944,229	114,381
P.R. Aqueduct & Sewer Authority	1,391,000		(1,284,000)	107,000	107,000
US Department of Health & Human Services Questioned Costs 2005-2006	152,769		(137,312)	15,457	15,457
US Department of Housing and Urban Development 2013-2014		269,850	(133,650)	136,200	136,200
Puerto Rico Building Authority	3,592,129			3,592,129	270,000
Claims and judgments	1,193,628	317,797	(68,000)	1,443,425	233,333
Compensated absences	15,477,335	3,178,688	(832,430)	17,823,593	656,568
PR Retirement System Administration - Payment Plan		7,487,763	(5,654,348)	1,833,415	1,833,415
Christmas bonus payable	1,338,106	1,475,622	(1,338,106)	1,475,622	1,539,440
Landfill Obligations – Payment Plan		8,042,707	(1,431,441)	6,611,266	1,319,000
PR Department of Labor – Payment plan	<u>1,003,297</u>	-	<u>(354,105)</u>	<u>649,192</u>	<u>354,105</u>
Total long-term debt	<u>\$ 325,684,996</u>	<u>\$ 22,020,809</u>	<u>\$ (23,462,026)</u>	<u>\$ 324,243,779</u>	<u>\$ 18,831,031</u>

13. LONG-TERM LIABILITIES (continued)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessed property value located within the Municipality. Before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable and notes, are paid with unrestricted funds.
2. **Bonds Payable -** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Outstanding bonds payable at June 30, 2015 are as follows:

Description	Balance at June 30, 2015
2001 General obligation bond for construction, improvements and acquisition of various capital assets with an original amount of \$31,765,000 due in installments of \$435,000 to \$2,755,000, through July 1, 2025, with interest ranging from 2.70% to 6.13%	\$ 21,240,000
2004 Special refunding obligation bond for payment of debt with an original amount of \$13,200,000 due in installments of \$250,000 to \$950,000 through July 1, 2028, with interest ranging from 2.25% to 5.55%	9,515,000
2004 General refunding obligation bond for payment of debt with an original amount of \$10,650,000 due in installments of \$200,000 to \$750,000 through July 1, 2028, with interest ranging from 2.25% to 5.55%	7,660,000
2004 General bond for construction and improvements of capital assets with an original amount of \$16,295,000 due in installments of \$325,000 to \$1,250,000 through July 1, 2023, with interest ranging from 1.56% to 6%	9,335,000
2004 Special refunding obligation bond for payment of debt with an original amount of \$12,020,000 due in installments of \$240,000 to \$995,000 through July 1, 2023, with interest ranging from 2.45% to 5.5 %	6,905,000
2004 Special obligation bond for construction and improvements of capital assets with an original amount of \$4,535,000 due in installments of \$85,000 to \$335,000 through July 1, 2028, with interest ranging from 2.45% to 5.6%	3,105,000
2004 Special obligation bond for operational expenses with an original amount of \$8,015,000 due in installments of \$150,000 to \$575,000 through July 1, 2028, with interest ranging from 2.45% to 5.6%	5,490,000
2007 General obligation bond for construction and improvements of capital assets with an original amount of \$10,565,000 due in installments of \$204,000 to \$963,000 through July 1, 2031, with interest ranging from 5.57% to 6.5%	8,777,000

13. LONG-TERM LIABILITIES (continued)

Description	Balance at June 30, 2015
2007 General obligation bond for payment of operational debt with an original amount of \$7,542,000 due in annual installments of \$146,000 to \$948,000, through July 1, 2021, with interest ranging of 5.57% to 6%	\$ 5,322,000
2008 Special obligation bond for infrastructure construction with an original amount of \$26,100,000 due in annual installments of \$415,000 to \$2,210,000 through July 1, 2032, with interest ranging of 5.4% to 7%	23,070,000
2010 General obligation bond for operational activities with an original amount of \$15,860,000 due in installments of \$235,000 to \$1,330,000, through July 1, 2025, with interest ranging from 4.75% to 7.50%	14,505,000
2011 General obligation bond for construction of capital assets with an original amount of \$3,095,000 due in installments of \$45,000 to \$260,000 through July 1, 2035, with interest ranging from 6% to 7.5%	2,890,000
2011 General obligation bond for the construction of a capital assets with an original amount of \$665,000 due in installments of \$10,000 to \$60,000 through July 1, 2035, with interest ranging from 6% to 7.50%	625,000
2011 General obligation bond for construction of a capital assets with an original amount of \$4,525,000 due in installments of \$60,000 to \$380,000 through July 1, 2035, with interest ranging from 6% to 7.50%	4,235,000
2011 General bond for operational activities with an original amount of \$13,050,000 due in installments of \$190,000 to \$1,095,000 through July 1, 2035, with interest ranging from 6% to 7.50%	12,195,000
2012 General obligation bond for construction of capital assets with an original amount of \$2,335,000 due in installments of \$85,000 to \$245,000 through July 1, 2026, with interest ranging from 6% to 7.5%	2,055,000
2012 General bond for operational activities with an original amount of \$13,048,000 due in installments of \$190,000 to \$1,093,000 through July 1, 2036, with interest ranging from 6% to 7.50%	12,433,000
2012 General obligation bond for construction of a capital assets with an original amount of \$3,260,000 due in installments of \$45,000 to \$270,000 through July 1, 2036, with interest ranging from 6% to 7.50%	3,110,000
2012 General obligation bond for construction of a capital assets with an original amount of \$785,000 due in installments of \$35,000 to \$90,000 through July 1, 2024, with interest ranging from 6% to 7.50%	665,000
2013 General obligation bond for construction of a capital assets with an original amount of \$505,000 due in installments of \$5,000 to \$45,000 through July 1, 2037, with interest ranging from 6% to 7.50%	490,000
2013 General obligation bond for construction of a capital assets with an original amount of \$1,615,000 due in installments of \$35,000 to \$145,000 through July 1, 2,032, with interest ranging from 6.00% to 7.50%	1,540,000
2014 General obligation bond for operational activities with an original amount of \$10,040,000 due in installments of \$145,000 to \$840,000 through July 1, 2,038, with interest ranging from 6.00% to 7.50%	9,895,000

13. LONG-TERM LIABILITIES (continued)

Description	Balance at June 30, 2015
2014 General obligation bond for construction of a capital assets with an original amount of \$10,800,000 due in installments of \$160,000 to \$900,000 through July 1, 2,038, with interest ranging from 6.00% to 7.50%	10,640,000
Total	\$ 175,697,000

Annual maturity requirements for the general and special obligations bonds are as follows:

Year Ending June 30,	Principal	Interest
2016	\$ 7,345,000	\$ 8,201,739
2017	7,783,000	9,614,473
2018	8,292,000	9,911,748
2019	8,861,000	9,412,045
2020	9,434,000	8,876,920
2021-2025	50,931,000	36,570,287
2026-2030	40,041,000	22,005,832
2031-2035	32,192,000	9,587,485
2036-2040	10,818,000	1,265,025
Total	\$ 175,697,000	\$ 115,445,554

These bonds, except the 2004 Series \$12,020,000, 2004 Series \$4,535,000, 2004 Series \$8,015,000 and 2008 Series \$26,100,000, are paid from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2004 Series \$12,020,000 bond, 2004 Series \$4,535,000, and 2004 Series \$8,015,000 bonds are payable with General Fund resources. The 2008 Series \$26,100,000 bond is payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Puerto Rico Treasury Department.

- 3. Notes Payable-** The proceeds of the issuance of notes payable were used principally to pay debt incurred in prior years and to cover the expenditures of a special event, including the purchase of equipment. The notes are payable as follows:

Type of notes	Maturity Date	Original Amount	Range of Interest Rate	Balance at June 30, 2015
General obligation note 2010 series	7-1-16	435,000	6.0% to 7.50%	\$ 150,000
General obligation note 2011 series	7-1-17	640,000	6.0% to 7.50%	310,000

13. LONG-TERM LIABILITIES (continued)

Type of notes	Maturity Date	Original Amount	Range of Interest Rate	Balance at June 30, 2015
General obligation note 2011 series	7-1-17	2,015,000	6.0% to 7.00%	990,000
General obligation note 2011 series	7-1-17	3,575,000	6.0% to 7.50%	1,760,000
General obligation note 2012 series	7-1-18	1,490,000	6.0% to 7.50%	945,000
General obligation note 2013 series	7-1-19	2,215,000	6.0% to 7.00%	1,695,000
General obligation note 2014 series	7-1-20	490,000	6.0% to 7.50%	435,000
General obligation note 2012 series-(IVU)	7-1-18	1,005,000	6.0% to 7.50%	635,000
General obligation note 2012 series-(IVU)	7-1-18	1,030,000	6.0% to 7.00%	655,000
General obligation note 2012 series-(IVU)	7-1-18	2,206,000	6.0% to 7.50%	1,396,000
Total notes payable				\$ 8,971,000

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

Year Ending June 30,	Principal	Interest
2016	\$ 2,170,000	\$ 473,160
2017	2,350,000	360,590
2018	2,440,000	227,545
2019	1,451,000	90,998
2020	475,000	23,200
2021-2025	85,000	3,187
Total	\$ 8,971,000	\$ 1,178,680

4. **Loan guarantee assistance notes (LGA)**—These notes are guaranteed by the federal government through the Loan Guarantee Assistance Program and will be repaid from future appropriations of the Municipality's Community Development Block Grant Program Funds.

The notes, totaling \$16,255,000 are payable in annual aggregate principal installments ranging from \$1,044,000 to \$1,624,000, plus interest rates, which fluctuate from 8.04% to 8.19%.

Type of notes	Maturity Date	Original Amount	Range of Interest Rate	Balance at June 30, 2015
Loan guarantee assistance (LGA) notes - Series 2011-A	8-1-30	\$ 8,890,000	Variable	\$ 8,890,000
Loan guarantee assistance (LGA) notes - Series 2010-A	8-1-22	10,956,000	Variable	6,780,000
Loan guarantee assistance (LGA) notes - Series 2008-A	8-1-15	3,845,000	8.04% to 8.19%	580,000
Total				\$ 16,250,000

13. LONG-TERM LIABILITIES (continued)

Annual debt service requirements to maturity for loan guarantee assistance notes are as follows:

Year Ending June 30,	Principal	Interest
2016	\$ 1,624,000	\$ 471,148
2017	1,044,000	433,221
2018	1,044,000	404,146
2019	1,044,000	372,669
2020	1,044,000	339,157
2021-2025	5,225,000	1,202,023
2026-2030	5,225,000	415,858
Total	\$ 16,250,000	\$ 3,638,222

5. **Property taxes debt-** This amount represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2015. The Municipality had to pay CRIM \$50,884,204 plus a 6.5% yearly interest rate. The CRIM issued a settlement noting that the advances exceeded collections by \$50 million plus interest at a 6.5% annual rate that amounts to \$86,581,119. In the government-wide financial statements, the entire amount (principal plus interest) has been recognized as long-term debt. See note 17 commitments.
6. **Interest due for accounts sold – CRIM** - This amount represents the balance owed to the Municipal Revenue Collection Center ("CRIM") at June 30, 2015 as described in Note 14.
7. **P.R. Water and Sewer Authority note payable-** During fiscal year 2012-2013, the Municipality entered into a payment plan agreement with the Puerto Rico Aqueduct and Sewer Authority, for the payment of the Municipality's debt for water and sewer charges. The balance at June 30, 2015 of this agreement was \$107,000.
8. **US Department of Health and Human Services – Questioned Costs 2005-2006** - This amount represents the balance owed to the federal government, for questioned costs claimed for the program years 2005 through 2006. The balance of this debt will be from the operating funds of the Municipality.
9. **US Department of Housing and Urban Development – Questioned Costs 2013-2014** - This amount represents the balance owed to the federal government, for questioned costs claimed for the program year 2013. The balance of this debt will be from the operating funds of the Municipality.
10. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred. However, in the government-wide financial statements, the liability is recorded when due. The \$1,443,425 reported corresponds to the outstanding balance of such debts as of June 30, 2015.
11. **Retirement System Administration** – This amount represents the balance owed to the Retirement System Administration that was retained by the remittance during the previous twelve (12) months. The balance at June 30, 2015 of these agreements was \$1,833,415.

13. LONG-TERM LIABILITIES (continued)

- 12. Compensated absences** - The government-wide statement of net position includes approximately \$17.8 million of accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- 13. Christmas bonus** - represents the accrued portion corresponding to the fiscal year 2015 of the Christmas bonus to be paid in December 2015. The outstanding amount is \$1,475,622.
- 14. PR Department of Labor Payment Plan** - This amount represents the balance owed to the PR Department of Labor regarding a new repayment plan made during 2014-2015, for unemployment taxes debt incurred by the Municipality. The balance at June 30, 2015 of this agreement was \$649,193.
- 15. Property tax advances** – This amount represents the balance owed to the Municipal Revenue Collection Center (CRIM) at June 30, 2015. The outstanding amount is \$1,113,132.
- 16. PR Building Authority** – This amount represents the balance owed to the agency Puerto Rico Building Authority at June 30, 2015. The outstanding amount is \$3,592,129.

14. PROPERTY TAXES

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The personal property tax is self-assessed by the taxpayer. The assessment is made in a return, which must be filed with the CRIM by May 15 of each year. The real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on estimated current values of the real property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date. The rates are 9.33% for real property and 7.33% for personal property.

The composition is as follows:

	Real	Personal
Basic property	6.00%	4.00%
Additional special property – state	1.03%	1.03%
Additional special property – municipal	2.50%	2.50%
Discounts made by state to taxpayer	(.20%)	(.20%)
	9.33%	7.33%

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The additional special property tax - state is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government. The additional special property tax - municipal is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the debt service fund when collected by the CRIM and reported to the Municipality.

14. PROPERTY TAXES (continued)

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections.

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. Total advances from CRIM as of June 30, 2015, presented as noncurrent liabilities in the government-wide financial statements amounted to approximately \$86.5 million pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2015.

On June 26, 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities through a 30-year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law.

This preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Independent Auditors. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

14. PROPERTY TAXES (continued)

The CRIM issued the final liquidation for fiscal year 2015-2016 noting that the collections exceeded advances by \$22,643. In the governmental funds the entire receivable has been offset by a deferred inflow of resources since the excess was not available to pay liabilities of the current period. In the government-wide financial statements, the entire receivable is recognized as revenue.

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 millions, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 2000-2001.

15. SALES AND USE TAX

On July 4, 2006, the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80), which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007, 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

Effective January 1, 2011, the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050, the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

On June 30, 2013, the Commonwealth approved Act No. 40 which, among other things, reduces the municipal sales and use tax from 1.5% to 1% and increases the Commonwealth's sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

15. SALES AND USE TAX (continued)

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014, the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances.

Act No. 18 creates a special fund called the Municipal Administration Fund (FAM), under the custody of the Government Development Bank of Puerto Rico (GDB), which permits the municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act also includes special provisions for municipalities that do not want to be covered by the Act.

After July 1, 2014, the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, the Commonwealth will deposit .5% in the FAM. Distribution to the municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Municipality of Ponce signed the agreement to be covered.

For municipalities covered by the agreement, the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities have the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long-term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

Act No. 19 creates the Municipal Finance Corporation (COFIM), a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax of 1%. The Act also includes special provisions for municipalities that do not want to be covered by the Act.

15. SALES AND USE TAX (Continued)

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

Individuals, organizations and entities subject to the collection of the municipal sales and use tax must file a tax return to COFIM. The tax is due on or before the 20th day of each month based on the tax collected in the preceding month. COFIM has provided retailers three alternatives for the filling of the monthly return: 1) electronic filling through COFIM's internet portal; 2) in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico; and 3) in the collections offices of the municipalities that have been certified as collection agents of COFIM.

COFIM established a system of monthly advances for the transfers of the .2% related to the Municipal Redemption Fund (FRM) and the 1% of municipal sales and use tax. Each month, the GDB will make the FRM and 1% sales and use tax transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FRM and the 1% sales and use tax with the monthly advances made to each municipality. If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances.

16. PENSION PLAN

General Information about the Pension Plan

As of June 30, 2015, regular employees of the Municipality contribute to a cost-sharing multiple employer hybrid defined benefit and defined contribution retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation. The pension plan operates under Act No. 447 of May 15, 1951, as amended, Act No. 305 of September 24, 1999 (System 2000 Reform) and Act No. 3 of April 4, 2013.

16. PENSION PLAN (continued)

Under Act 447, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. For active participants of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the hybrid pension plan established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

Participants under the defined contribution plan established by Reform System 2000 will receive a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return. New participants under the hybrid plan established by Act No. 3 will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). The minimum monthly pension for current retirees is \$500.

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 ($\$5,000 \times .25\%$).

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$2,825,662.

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15, amounted to \$1,567,240, of which \$375,480 (24%) was subsidized by the OMB.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

As per the requirements of the GASB Statements No. 67 and 68, ESR is required, as the pension plan's administrator, to provide to each of its participating employers audited actuarial and financial information used in the calculation of their proportionate share of the plan's net pension liability, pension expense and deferred outflows/inflows of resources related to pensions as of the measurement date. For the fiscal year ended June 30, 2015, the measurement date is June 30, 2014. In addition, the ESR has to provide all the required actuarial and historical data to be reported in the notes to the financial statements of the Municipality and as Required Supplementary Information (RSI).

16. PENSION PLAN (continued)

However, as indicated in the Basis for Qualified Opinion section of the independent auditors' report, the ESR has not provided to the Municipality the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. The ESR has informed its participating employers that the audited actuarial and financial data will be available in a future date during the calendar year 2016. The effects of this departure from U.S. generally accepted accounting principles in the assets, liabilities, deferred outflows/inflows of resources and net position of the Municipality's governmental activities cannot be determined at this time.

17. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in **note 16**, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonuses and death benefits. However, beginning July 1, 2013, Act No. 3 of 2013 eliminated all Special Law benefits to future retirees.

For the fiscal year ended June 30, 2015, the costs related to these post-employment benefits amounted to \$1,875,006, of which \$156,251 (8%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

18. COMMITMENTS AND CONTINGENCIES

A. Operating leases and construction commitments

The Municipality leases real property, buildings, vehicles and equipment under several 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 basic financial statements for the year ended June 30, 2015, amounted to approximately \$1.4 million. Management believes that the summary of the future minimum rental commitments under noncancellable real property and equipment lease with terms exceeding one year is not significant.

The Municipality had commitments at June 30, 2015 of approximately \$4 million for the construction, improvement, or renovation of several municipal facilities.

B. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2015, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

C. Claims and lawsuits

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the advice of their legal counsel, that the probable claims against the Municipality not covered by insurance are in the amount of \$1.2 million at June 30, 2015.

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. Although, such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

Municipality of Ponce vs. "CRIM"

On June 29, 2000, the Municipality filed an administrative complaint against CRIM, whereby it was questioning CRIM's collection of \$35,589,383. On December 10, 2004, the examining officer's report was adopted by CRIM and Municipality's complaint was dismissed. As a result, the Municipality had to pay CRIM \$50,660,429.55 plus a 6.5% yearly interest rate. The CRIM ruled once more against the Municipality and held the latter owed CRIM the sum of \$50,844,204 plus interest. The Municipality appealed before the Puerto Rico Court of Appeals. Finally, the CRIM filed a petition for certiorari before the Puerto Rico Supreme Court, which decided to entertain the case. As a result, CRIM filed its appeal brief on August 3, 2009 and the Municipality filed its brief on October 1, 2009, after requesting and obtaining an extension of time. The case is now before the Puerto Rico Supreme Court.

18. COMMITMENTS AND CONTINGENCIES (continued)

D. Other Commitments:

At June 30, 2015, the general fund had commitments of approximately \$4.1 million for purchases orders or contracts that will be honored during the subsequent year.

19. CLOSURE AND POST CLOSURE CARE COSTS AND LANDFILL OBLIGATIONS

In accordance with Statement No. 18 of the "GASB", "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality obtained a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. As of June 30, 2015, the estimated remaining life of its landfill was approximately 5.5 years.

The Municipality formalized an agreement with Consolidated Waste Corp. for the collection, transportation and disposal of municipal waste for a period of ten (10) years from October 1, 2009 to September 30, 2019.

The agreement includes the extension and amendment of lease of common land and structures known as "Facilidades del Garage El Tuque" for a period of ten (10) years incidental with the agreement for the collection, transportation and disposal of non-hazardous waste. In addition, the contractor is liable to comply with laws, rules, municipal ordinances, regulations of the P.R. Environmental Quality Board (JCA) and the U.S. Environmental Protection Agency (EPA).

The service charge amount billed by the contractor ranges from \$6.26 per residential unit, in the first year, to \$7.40 in the final year of the agreement. For school facilities, the charges range from \$150 in the first year, to \$179.26 in the final year of the contract. These amounts are payable monthly to the contractor, and services to public housing facilities are to be free of charge.

In addition, the Municipality formalized an agreement for disposal services and the lease, management and operation of the Ponce Municipal Landfill. The term of this agreement commences on the execution date (October 15, 2004) of the agreement and continues until the earlier of (a) June 30, 2034, (b) the date on which the Landfill (including any expansion) is completely filled and rendered unusable, or (c) such date as the agreement is earlier terminated pursuant to the provisions of this agreement.

The work to be performed under this agreement consists of all activities and resources, including the management, supervision, materials, equipment, labor and all other activities necessary or appropriate for the operation of the landfill in accordance with this agreement and in accordance with all applicable laws and regulations. The contractor shall assume all costs related to all the activities and resources needed to adequately manage and operate the landfill, including the disposal services, except as otherwise provided in this agreement.

20. SUBSEQUENT EVENTS

Puerto Rico Fiscal and Economic Growth Plan

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico established by the Governor Alejandro García Padilla by executive order EO 2015-022 submitted the Fiscal and Economic Growth Plan (FEGP), setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Commonwealth's projected financing gaps. In order to ensure compliance with the FEGP measures, the Working group proposes the implementation of a control board and new budgetary regulations, pursuant to proposed legislations known as the Fiscal Responsibility and Economic Revitalization Act (FRERA). The reform measures proposed by the FEGP, including the creation of the control board, have been submitted to the Commonwealth Legislature for review and final approval.

New Guidelines for the Calculation of the Contribution In Lieu of Taxes ("CELI")

On October 16, 2015, the Puerto Rico Commission of Energy ("CEPR") approved the new guidelines for the energetic subsidy (contribution) received by the 78 municipalities of the Commonwealth from the Puerto Rico Electric Power Authority (PREPA) in lieu of the payment of municipal license taxes ("CELI"). These guidelines limit to the subsidy to be received by the municipalities, by establishing a maximum threshold amount of energy consumption charges that can be incurred by the municipalities. Any charges in excess of that maximum threshold will be paid by the municipalities based on the prevailing service rates in effect during the billing period. If the municipalities do not pay the amounts billed, they are subject to a possible service cancellation by the PREPA.

In addition to these energy consumption limits, the CELI will not be applicable to every municipal property or installation. It will only be available for those facilities used for the rendering of not-for-profit services to the community; for corporations that provide public health services; and for the consumption charges incurred by the public lighting infrastructure. Those municipal installations and properties used for for-profit activities or occupied by not-for-profit entities that do not provide municipal services or by persons and businesses that are not municipal entities are excluded from the CELI subsidy.

Finally, the guidelines require that the municipalities implement efficiency and conservation measures for a reduction of 15% in the energy consumption to be incurred in the next three fiscal years. All of these requirements are effective beginning November 16, 2015 (fiscal year 2015-16).

Application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its Instrumentalities

A law project has been submitted to the Congress of the United States of America requesting the application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its instrumentalities. The benefits available under Chapter 9 would permit the Commonwealth to restructure its debt with its bondholders, with the purpose of decreasing the interest costs and debt service requirements that consume a significant part of the Commonwealth's operating budget.

20. SUBSEQUENT EVENTS (continued)

During the past months, the Governor and Resident Commissioner of Puerto Rico have been persistently lobbying for the approval of this law project, including various public hearings in Congress, arguing that the Commonwealth will incur in a default of its debt service requirements for the fiscal year 2015-16 citing that both the Governmental Development Bank of Puerto Rico and the Puerto Rico Treasury Department are suffering from severe cash flow shortfalls that put in jeopardy the fulfillment of their debt obligations. The continuing economic and fiscal crisis of the island will seriously affect the amount and quality of services provided to the citizenry and the amount of subsidies and funds provided by the state to the municipalities.

Port of Ponce Authority

Pursuant to Act. 156 of 2013, which amended Act 240 of 2011, the development of Port of the Americas Rafael Cordero Santiago and the Port of Ponce in general shall be the responsibility of the Ponce Port Authority. The Autonomous Municipality of Ponce, through the Ponce Port Administrative Board is currently managing the port installations. Presently, the Municipality and the Port of Ponce Authority are engaged in an ongoing negotiation as to the terms and conditions whereby certain municipal property shall be transferred to the latter for a period of ten years, after which term, all the Ponce Ports Authority assets, including those obtained from other governmental agencies, authorities or departments will be transferred to the Autonomous Municipality of Ponce. Ponce Port Administrative Board shall continue to operate and manage the installations until a final agreement is reached between the Authority and the international caliber port operator. The Board continues to operate the port installations under the terms of a provisional Lease Agreement executed on February 14, 2010 until a new operator is hired by the Ponce Port Authority.

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	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note 1)	Final Budget Positive (Negative)
REVENUES:				
Property taxes	\$ 35,828,572	\$ 35,828,572	\$ 31,612,445	\$ (4,216,127)
Municipal license tax	20,433,000	20,433,000	20,726,097	293,097
Sales tax	13,544,000	13,544,000	14,491,513	947,513
Licenses, permits and other local taxes	3,522,000	3,522,000	4,002,869	480,869
Royalties and others	1,500,000	1,500,000	1,375,811	(124,189)
Charges for services	315,580	315,580	388,105	72,525
Intergovernmental – State Contributions	15,489,814	15,489,814	15,252,876	(236,938)
Fines and forfeiture	500,000	500,000	85,436	(414,564)
Rent of municipal property	685,000	685,000	619,016	(65,984)
Interest	1,200	1,200	1,541	341
Miscellaneous	<u>2,732,600</u>	<u>2,732,600</u>	<u>2,301,034</u>	<u>(431,566)</u>
Total revenues	<u>94,551,766</u>	<u>94,551,766</u>	<u>90,856,743</u>	<u>(3,695,023)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	55,144,554	55,144,554	53,251,306	1,893,248
Public safety	11,903,033	11,903,033	11,178,252	724,781
Public works	13,321,010	13,321,010	13,004,866	316,144
Health and welfare	4,796,064	4,796,064	4,336,066	459,998
Culture and recreation	5,069,282	5,069,282	5,548,160	(478,878)
Urban development	1,463,105	1,463,105	1,430,043	33,062
Education	953,703	953,703	1,115,456	(161,753)
Operating transfer to Debt Service Fund	<u>1,901,015</u>	<u>1,901,015</u>	<u>1,939,337</u>	<u>(38,322)</u>
Total expenditures, encumbrances and other financing uses	<u>94,551,766</u>	<u>94,551,766</u>	<u>91,803,486</u>	<u>(2,748,280)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)			\$ (946,743)	\$ (946,743)
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 90,856,743
Differences-budget to USGAAP:				
Non-budgeted transfer in				3,189,606
Non-budgeted revenues and other financing resources				1,647,896
Issuance of repayment plan note payable				<u>15,530,470</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 111,224,715</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 91,803,487
Differences-budget to USGAAP:				
Non-budgeted transfer out				1,954,307
Non-budgeted expenditures and other financing resources				18,355,323
Prior year encumbrances recorded as current year expenditures for USGAAP basis				3,216,275
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(4,072,380)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)				<u>\$ 111,257,012</u>

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund. For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

The annual budget as presented in the Budgetary Comparison Schedule - General Fund is the budget ordinance at June 30, 2015 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2015.

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Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)	Lower Income Housing Moderate I & II (CFDA No. 14.856)	Total
BALANCE SHEET				
Assets	Current Assets Cash			
111	Cash - Unrestricted	\$ 92,031	\$ 208,360	\$ 300,391
113	Cash - Other Restricted	616,687	592,119	1,208,806
115	Cash – Restricted for Payment of Current Liab.	229,169	-	229,169
100	Total Cash	937,887	800,479	1,738,366
124	Accounts Receivable - Other Government	134,287	-	134,287
125	Accounts Receivable - Miscellaneous	2,406	297	2,703
128	Fraud Recovery	223,268	1,655	224,923
128.1	Allowance for Doubtful Accounts - Fraud	(20,094)	-	(20,094)
120	Total Receivables, Net of Allowances for Doubtful Accounts	339,867	1,952	341,819
132	Investments - Restricted	2,679	-	2,679
135	Investments – Restricted for Payment of Current Liability	2,479	-	2,479
143	Inventories	9,924	21	9,945
144	Inter Program Due From	10,713	-	10,713
150	Total Current Assets	\$ 1,303,549	\$ 802,452	\$ 2,106,001
	Non-Current Assets			
	Fixed Assets:			
164	Furniture, Equipment & Machinery – Admin.	135,597	3,821	139,418
165	Leasehold Improvements	1,751	5	1,756
166	Accumulated Depreciation	(108,477)	(3,022)	(111,499)
160	Total Capital Assets, Net of Accumulated Depreciation	28,871	804	29,675
180	Total Non-Current Assets	28,871	804	29,675
290	Total Assets and Def. Outflow of Resources	\$ 1,332,420	\$ 803,256	\$ 2,135,676

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)	Lower Income Housing Moderate I & II (CFDA No. 14.856)	Total
BALANCE SHEET (CONTINUED)				
Liabilities and Equity	Liabilities			
300	Total Liabilities			
312	Accounts Payable <= 90 Days	48,728	964	49,692
321	Accrued Wage/Payroll Taxes Payable	28,244	2,000	30,244
322	Accrued Compensated Absences – Current Portion	27,026	678	27,704
325	Accrued Interest Payable	9,055	-	9,055
333	Accounts Payable – Other Government	2,443	-	2,443
342	Unearned Revenue	223,268	1,655	224,923
345	Other Current Liabilities	38,836	-	38,836
346	Accrued Liabilities - Other	7,500	-	7,500
347	Inter Program – Due To	3,897	-	3,897
310	Total Current Liabilities	388,997	5,297	394,294
353	Non-current Liabilities - Other	773	-	773
354	Accrued Compensated Absences – Non Current	226,918	4,395	231,313
350	Total Non-Current Liabilities	227,691	4,395	232,086
300	Total Liabilities	616,688	9,692	626,380
Equity	Equity			
508.4	Net Investment in Capital Assets	28,871	804	29,675
511.4	Restricted Net Position	229,169	592,119	821,288
512.4	Unrestricted Net Position	457,692	200,641	658,333
513	Total Equity - Net Assets/Position	715,732	793,564	1,509,296
600	Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position	\$ 1,332,420	\$ 803,256	\$ 2,135,676

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)	Lower Income Housing Moderate I & II (CFDA No. 14.856)	Total
INCOME STATEMENT				
70600	HUD PHA Operating Grants	\$ 8,447,714	\$ 289,774	\$ 8,737,488
71100	Investment Income - Unrestricted	1,153	22	1,175
71400	Fraud Recovery	36,577	1,278	37,855
71500	Other Revenue	124,704	3	124,707
72000	Investment Income - Restricted	-	216	216
70000	Total Revenues	\$ 8,610,148	\$ 291,293	\$ 8,901,441
Expenses Administrative:				
91100	Administrative Salaries	612,096	16,576	628,672
91400	Advertising and Marketing	5,093	83	5,176
91500	Employee Benefit Contributions – Admin.	208,983	5,775	214,758
91600	Office Expenses	37,297	2,169	39,466
91800	Travel	12,905	359	13,264
91900	Other	58,364	68	58,432
91000	Total Operating - Administrative	\$ 934,738	\$ 25,030	\$ 959,768
96200	Other General Expenses	-	-	-
93100	Water	1,854	52	1,906
93200	Electricity	27,949	779	28,728
93800	Other Utilities Expense	6,568	182	6,750
93000	Total Utilities	36,371	1,013	37,384
94100	Ordinary Maintenance and Operations - Labor	-	1	1
94200	Ordinary Maintenance and Operations - Materials	242	-	242
94000	Total Maintenance	242	1	243
95200	Protective Services – Other Contract Costs	-	56	56
95300	Protective Services - Ohter	2,043	-	2,043
95000	Total Protective Services	2,043	56	2,099
96140	All Other Insurance	272	-	272
96100	Total Insurance Premiums	272	-	272
96200	Other General Expenses	-	788	788
96000	Total Other General Expenses	-	788	788
96900	Total Operating Expenses	\$ 973,666	\$ 26,888	\$ 1,000,554
97000	Excess of Operating Revenue over Operating Expenses	7,636,482	264,405	7,900,887

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)	Lower Income Housing Moderate I & II (CFDA No. 14.856)	Total
INCOME STATEMENT (CONTINUED)				
97300	Housing Assistance Payments	7,956,668	264,938	8,221,606
97350	HAP Portability-In	114,578	-	114,578
97400	Depreciation Expense	28,264	-	28,264
90000	Total Expenses	9,073,176	291,826	9,365,002
10000	Excess (Deficiency) of Total Revenues Over (Under) Total Expenses	(\$ 463,028)	(\$ 533)	(\$ 463,561)
Memo Account Information:				
*11030	Beginning Equity	1,406,129	800,933	2,207,062
*11040	Prior Period Adjustments, Equity Transfers and Correction	(227,369)	(6,836)	(234,205)
*11170	Administrative Fee Equity	486,562	-	486,562
*11180	Housing Assistance Payments Equity	229,170	-	229,170
*11190	Unit Months Available	18,888	36	18,924
*11210	Number of Unit Months Leased	15,329	34	15,363

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) presents the financial position of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by the Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC) as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the guidelines for reporting and attestation requirements of UFRS, the accompanying FDS is included as information supplementary to the financial statements. It was prepared using the accrual basis of accounting, as required by REAC regulations.

Federal Grantor/ Pass-through Grantor/Program or cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Pass-through Commonwealth of Puerto Rico- Education Department			
Child Care and Adult Food Program	10.558	CCC-049	\$ 1,053,581
Total U.S. Department of Agriculture			1,053,581
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<u>Direct Programs:</u>			
CDBG – Entitlement Grants Cluster:			
Community Development Block Grant – Entitlement Program	14.218	N/A	2,969,015
Emergency Solutions Grants Program	14.231	N/A	200,192
Subtitle of Title IV –Vento Homeless Assistance (Shelter Plus)	14.238	N/A	165,282
Home Investment Partnerships Program	14.239	N/A	1,594,715
Section 8 Housing Choice Vouchers	14.871	N/A	8,458,022
Section 8 - Project- Based Cluster:			
Lower Income Housing Assistance Programs			
Section 8 - Moderate Rehabilitation I	14.856	N/A	28,220
Section 8 - Moderate Rehabilitation II	14.856	N/A	261,553
Total U.S. Department of Housing and Urban Development			13,676,999
U.S. DEPARTMENT OF LABOR			
Pass-through Programs:			
Commonwealth of Puerto Rico Department of Labor (Council of Occupational Development and Human Resources):			
Workforce Investment Act Cluster:			
Adult Program	17.258	Not Available	700,871
Youth Activities	17.259	Not Available	814,032
Dislocated Workers	17.260	Not Available	575,361
Total U.S. Department of Labor			2,090,264
U.S. DEPARTMENT OF EDUCATION			
Pass-through Programs:			
Adult Education and Family Literacy	84.002	Not Available	243,055
Total U.S. Department of Education			243,055
U.S. DEPARTMENT OF TRANSPORTATION			
<u>Direct Programs:</u>			
Federal Transit Investment Act	20.500	N/A	1,317,084
Pass-through Commonwealth of Puerto Rico-Police Department			
State and Community Highway Safety Community Program	20.600	Not Available	101,239
Total U.S. Department of Transportation – (NHTSA)			1,418,323

Federal Grantor/ Pass-through Grantor/Program or cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF ENERGY			
<u>Direct Program:</u>			
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	N/A	10,273
Total U.S. Department of Energy			10,273
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Direct Programs:</u>			
Administration for Children, Youth and Families			
Head Start Cluster:			
Head Start Program	93.600	N/A	11,224,768
HIV Emergency Relief Project Grants	93.914	N/A	78,822
Total U.S. Department of Health and Human Services			11,303,590
U.S. DEPARTMENT OF HOMELAND SECURITY			
<u>Direct Programs:</u>			
Homeland Security Grant Program- OPSG	97.067	N/A	44,946
Pass-through Commonwealth of Puerto Rico			
-Emergency Management Agency			
Disaster Recovery Grants - Public Assistance	97.036	FEMA 1798-DR-PR	1,077
		FEMA 1946-DR-PR	2,093
Homeland Security Program- SHSP & SHSG	97.073	EMW-2012-SS-00049	304,975
		EMW-2013-SS-00148	31,496
Total U.S. Department of Homeland Security			384,587
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 30,180,672

1. BASIS OF PRESENTATION

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period. The Catalog of Federal Domestic Assistance (CFDA) Number is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the Municipality, known as "pass-through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

2. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS

Description	Health and Human Services Grants Fund	Workforce Investment Act Grants Fund	Housing and Urban Development Grant Fund	Other Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 11,303,590	\$ 2,090,264	\$ 13,676,999	\$ 3,109,819	\$ 30,180,672
Minus amount recorded as expenditures under modified accrual basis for Section 8 HCV Program			(615,154)		(615,154)
Non-federal awards expenditures	522,587	565,977	634,089	3,042,039	4,764,692
Total expenditures, and transfers fund statements	\$ 11,826,177	\$ 2,656,241	\$ 13,695,934	\$ 6,151,858	\$ 34,330,210

3. SECTION 108 LOAN PAYMENTS

For the fiscal year ended June 30, 2015, the Municipality paid the amount of \$1,594,000 in principal as repayment of Section 108 Loan Guarantee Assistance Notes (LGA).



López-Vega, CPA, PSC

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

**To the Honorable Mayor
and the Municipal Legislature
Municipality of Río Grande
Río Grande, Puerto Rico**

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Ponce**, Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated March 4, 2016.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items **2015-001** to be material weaknesses.

**INDEPENDENT AUDITOR’S 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 (CONTINUED)**

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item **2015-002** thru **2015-005** to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Autonomous Municipality of Ponce** ’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item **2015-001**.

We noted certain other matters that we reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated March 4, 2016.

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.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico March 4, 2016

Stamp No. 2705525 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.



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

To the Honorable Mayor
and the Municipal Legislature
Autonomous Municipality of Ponce
Ponce, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the **Autonomous Municipality of Ponce's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Autonomous Municipality of Ponce's** major federal programs for the year ended June 30, 2015. The **Autonomous Municipality of Ponce's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Autonomous Municipality of Ponce'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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Autonomous Municipality of Ponce'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 **Autonomous Municipality of Ponce's** compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB-CIRCULAR A-133 (CONTINUED)

Basis for Qualified Opinion on Head Start Program and Section 8 Housing Choice Voucher Program

As described in items in **2015-006** thru **2015-009** in the accompanying schedule of findings and questioned costs the **Autonomous Municipality of Ponce** did not comply with requirements regarding, **earmarking and reporting** that are applicable to **Head Start Cluster [Head Start Program (CFDA No. 93.600)]** in findings number **2015-008** and **2015-009**; and with requirements regarding **accounting records and reporting** that are applicable to **Section 8 Housing Choice Voucher (CFDA No. 14.871)** in findings numbers **2015-006** and **2015-007**. Compliance with such requirements is necessary, in our opinion, for the **Autonomous Municipality of Ponce** to comply with the requirements applicable to those programs.

Qualified Opinion on Head Start Program and Section 8 Housing Choice Voucher Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the **Autonomous Municipality of Ponce** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Head Start Program and Section 8 Housing Choice Voucher Program for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the **Autonomous Municipality of Ponce** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures also disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **2015-007** and **2015-008**. Our opinion on each major federal program is not modified with respect to these matters.



López-Vega, CPA, PSC

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB-CIRCULAR A-133 (CONTINUED)

Other Matters (Continued)

Autonomous Municipality of Ponce's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Autonomous Municipality of Ponce'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 **Autonomous Municipality of Ponce** 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 **Autonomous Municipality of Ponce's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Autonomous Municipality of Ponce's** internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2015-006**, **2015-007** and **2015-009** to be material weaknesses.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB-CIRCULAR A-133 (CONTINUED)

Report on Internal Control over Compliance (Continued)

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as item **2015-008** to be significant deficiencies.

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated March 4, 2016.

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico

March 4, 2016

Stamp No. 2705526 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Section II – Financial Statements Findings

(All of the following findings are considered to be significant deficiencies in internal control. Those that are material weaknesses (MW) are labeled as such.)

This significant deficiency in internal controls is considered an instance of noncompliance (NC).

Finding Reference **2015-001**

Requirement **Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans (MW)**

Statement of Condition Management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality’s governmental activities has not been determined.

In addition, the Municipality’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

Criteria GASB Statement No. 68 states the accounting and financial reporting requirements for pension plans provided to employees of state and local governments that are administered through cost-sharing pension plan trusts that comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.

Cause of Condition The Municipality’s pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015.

Effect of Condition The Municipality’s Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality.

Section II – Financial Statements Findings

Finding Reference **2015-001 (Continued)**

Recommendation We recommend the Municipality maintains a constant communication with the pension plan's administrator, the Commonwealth's Employees Retirement System Administration, in order to obtain the necessary audited actuarial and financial information necessary to comply with the requirements of the GASB Statement No. 68.

Questioned Cost None

Management Response

and Corrective Action We concur with the auditors' recommendations. The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard.

Status: Still in process

Implementation Date: During fiscal year 2016-2017

Responsible Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Section II – Financial Statements Findings

(All of the following findings are considered to be significant deficiencies in internal control. Those that are material weaknesses (MW) are labeled as such.)

Finding Reference **2015-002**

Requirement **Operating deficit of general fund**

Statement of Condition The Municipality closed its fiscal year ended June 30, 2015 with a fund deficit, before providing reserves in the general fund, of \$38,865,537. Also, the Municipality closed with an accumulated unassigned deficit of \$52,054,491. The Municipality's internal control relating to the budgeting function does not adequately prevent management from incurring expenditures in excess appropriated funds. In addition, the deficit was caused by the overstatement of estimated revenues and the incurrence of obligations without available credit in the budgetary accounts.

Criteria Article 8.004 (b) of Law 81 of Autonomous Municipalities establishes that the Municipality cannot obligate or spend funds in excess of the ensuing fiscal year. No amount shall be expended or obligated in a given fiscal year if exceeds its budgeted or authorized amounts by the Municipal Legislation.

Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that special care must be taken to prepare the revenues estimates so these will not results in budget appropriations in excess of available resources.

Cause of Condition This situation occurs because the Municipality is appropriating expenditures assuming the future collection of revenues using estimated tax collection provided by the Municipality Budgeting Division and the Municipal Revenue Collection Center. Therefore, the Municipality enters into purchases and contracts exceeding the actual taxes revenues earned and collected. The budgeting system does not reflect actual revenues and therefore cannot prevent the obligation of expenditures for which current resources will not be available. The overstatement of estimated revenues and the incurrence of obligations without available credit caused the Municipality to operate with a deficit.

Effect of Condition The Municipality did not comply with the Article 8.004 (b) and Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico.

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

Section II – Financial Statements Findings

Finding Reference 2015-002 (continued)

Recommendation We recommend management to evaluate the adequacy of the provision for deficit reserve accounts in the next fiscal year budget for the amortization of public debt as recommended by law. Also, the Municipality's officers must evaluate the negative variances between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.

Questioned Costs None

Management Response and Corrective Action The Autonomous Municipality of Ponce has taken the following measurements to avoid future operational deficits at end of year and to reduce the accumulated deficit:

- Beginning in March 2013 a labor work period reduction policy was implemented consisting of reducing to all employees two (2) labor days per month and 5% of reduction in the salaries for Department Directors and other personnel in trusted positions. An early termination program was declared to all appointment in the transitory and irregular service, except some positions necessary to guarantee the continuity of public services. Simultaneously, a reduction of 5% of the contract amount was established to all providers of professional services.
- Provisions for deficit reserve of \$50,000, 100,000 and 100,000 were included in the municipal budgets of the fiscal year 2013-2014, 2014-2015 and 2015-2016, respectively.
- Beginning on fiscal year 2013-2014, the Municipality obtains its insurance policies directly from the insurance agencies as authorized by Law Number 63 approved on June 21, 2010. As a result of such decision, the Municipality saved \$505,145.53 in insurance policies applicable to that fiscal year. On September 13, 2013 the Municipal Legislature authorized the Director of Finances and Budget, by means of the Resolution Number 23, Series 2013-2014 to make a credit transference in the effective budget for year 2013-2014, to increase by \$505,145.53 the budgetary item "Deficit of Previous Years", which was used to amortize the accumulated deficit.
- In May 2014, the Municipal Legislature approved by means of the Municipal Ordinance Number 74, Series of 2013-2014, a new labor reduction policy of 3.5 hours to the employees of the regular or probatory service and to the transitory and irregular employees, whose wages are covered by the municipal general fund or with funds of the Work Force Investment Act Program (WIA). Also, a reduction of 10% of the monthly salary was approved for the Mayor, directors of the administrative units and the employees in trusted position of the executive branch. Simultaneously, the Municipal Legislature established a reduction of 5% of the monthly salaries applicable to its employees. Such labor period reduction policy began in July 2014.

Section II – Financial Statements Findings

Finding Reference 2015-002 (continued)

- The municipal general budget for the fiscal years 2013-2014, 2014-2015 and 2015-2016 were reduced for the amount of \$5,337,308, \$12,180,730 and \$1,746,757, respectively, in comparison with the prior year budget.
- In July 2014, the Autonomous Municipality of Ponce re-negotiated the transportation and waste disposal contract, which allowed savings in such services for \$760,060 in fiscal year 2014-2015 and will represent additional savings for \$3,653,573 in the next five (5) fiscal years.
- In June 30, 2015, the Municipal Legislature authorized to the Director of Finance and Budget, by means of the Resolution Number 78, Series of 2014-2015 to make a credit transference in the effective budget for fiscal year 2014-2015, to increase by \$463,440 the budgetary item “Deficit of Previous Years”, which is used to amortize the accumulated deficit.
- The Municipal Financial Team continues evaluating additional alternatives to decrease expenditures and increase revenues in order to avoid deficits in the current and future budgets and to reduce the accumulated deficit.

Status: Partially Corrected

Implementation Date: During Fiscal Year 2016-2017

Responsible Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Section II – Financial Statements Findings

Finding Reference	2015-003
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality’s accounting system, we noted that the accounting data still requires several reporting adjustment in order to present the Municipality’s financial statements in the modified accrual basis of accounting and to produce the government-wide financial statements.
Criteria	Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Act, indicate that the accounting management system established in the Municipality should provide adequate and effective financial information for management decisions and in accordance with accounting principles general accepted in the United States of America and established by the Governmental Accounting Standard Board (GASB).
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting system.
Effect of Condition	The Municipality’s is not in compliance with Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991. The Municipality’s accounting system does not provide updated and complete financial information that presents accurately its financial position. Also, the lack of training of the accounting personnel for the preparation of complex reports, i.e. annual financial statements could restrict the adequate response of management in financial public affair issues.
Recommendation	We recommend the Municipality implements internal control procedures in order to maintain an accounting system that contains all information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response and Corrective Action	The Municipality will acquire a new financial and accounting system, which will permit to present the Municipality’s financial statements in the modified accrual basis of accounting and to produce the government-wide financial statements. The new financial and accounting system will include software applicable to federal programs. We expect to complete the acquisition process during fiscal year 2016-2017.
Status:	Still in Process
	Implementation Date: During fiscal 2016-2017
	Responsible Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Section II – Financial Statements Findings

Finding Reference **2015-004**

Requirement **Reconciliation Procedures – Federal Programs**

Statement of Condition The Municipality has not established internal controls to ensure the timely and accurate reconciliation of the accounting records maintained by program accountants with those maintained by the Municipality. Funds received from the U.S. Department of Housing and Urban Development for the Cluster – Community Development Block Grant – Entitlement, Cluster – Section 8 Housing Choice Vouchers and Home Investment Partnership Program and from U.S. Department of Health and Human Services for Cluster – Head Start Program and HIV Emergency Relief Project Grants are managed by their own administrative personnel, which include their own accounting departments. Each department maintains a separate set of accounting records kept on a double entry system. However, we noted that *none* of these departments or the Municipality’s central accounting department, have established the necessary policies and procedures for the reconciliation of the transactions recorded in the Programs’ accounting records with those recorded in the Municipality’s central accounting department.

This condition may result in not detecting or preventing errors or irregularities on a timely basis because there is no central oversight of all of the Municipality’s financial operations. The Finance Director is currently placing reliance upon the accounting records maintained by each of the Programs without having any control procedure to detect inconsistent accounting treatments. The Municipality should be aware of its responsibility for administering the grants even though a separate fiscal unit or department is assigned the responsibility of administering the funds.

Criteria Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Law, indicate that the accounting management system established in the Municipality should provide adequate and effective financial information for management decisions and in accordance with accounting principles general accepted in the United States of America and established by governmental accounting standard board.

24 CFR Subpart C, Part 85.20 (b) (2) states that the grantees and sub-grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Section II – Financial Statements Findings

Finding Reference	2015-004 (continued)
Cause of Condition	Lack of supervision and quality control procedures in the Accounting Division. The Municipality did not establish effective internal control over the transactions recorded on its accounting records.
Effect of Condition	The Municipality's is not in compliance with Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 and 24 CFR Subpart C, Part 85.20 (b) (2). The Municipality's accounting system did not provide updated and complete financial information that presents the financial position of the entity. Also, the lack of training of the accounting personnel for the preparation of complex reports, i.e. annual financial statements, could restrict the adequate response of management in financial public affair issues.
Recommendation	The Municipality should implement monthly reconciliations of the transaction recorded in each of the aforementioned programs with the transactions processed and recorded in the central accounting department. In addition, it should ensure that all federal financial reports are prepared based on the financial information once reconciled.
Questioned Costs	None
Management Response and Corrective Action	The acting Finance and Budget Director assigned to an Executive Officer (accountant) the responsibility of evaluating the procedures used by the Federal Programs to prepare the financial reports and to design written procedures necessities to assure proper and timely reconciliation of the transactions recorded in the program with those processed and recorded in the Municipal Accounting Department.
Status:	Still in process
	Implementation Date: During Fiscal Year 2016-2017
	Responsible Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Section II – Financial Statements Findings

Finding Reference	2015-005
Requirement	Municipal license tax revenues
Statement of Condition	Municipal license tax revenues of the fiscal year 2015-2016, which were collected in advance from taxpayers between January 1 through June 30, 2015 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund during the fiscal year ended June 30, 2015. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2014-2015, and must not be used to pay obligations of the prior year.
Criteria	Article 8.004(b) of Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) states that the Municipality cannot use or obligate any amount in a given fiscal year that exceeds the appropriations and the resources authorized by ordinance or resolution for such fiscal year. In addition, the Municipality cannot be committed, in any form, to any contract or negotiation for the future payment of amounts that exceed the current fiscal year's budgeted resources.
Cause of Condition	The foregoing condition is primarily due to the facts that the Municipality does not prepare cash flows forecasts and projections to anticipate any cash flows shortage. Management does not have timely and accurate information regarding its operations and cannot monitor the adherence to the established budget appropriations and cash flows.
Effect of Condition	The Municipality's is not in compliance with Article 8.004(b) of Law No. 81 of August 30, 1991 This situation will result in possible significant general fund limitations and eventual reduction or elimination of municipal services since future revenues were used to pay for accumulated liabilities.
Recommendation	We recommend the Municipality to prepare cash flows forecasts and projections to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of the current fiscal year.
Questioned Costs	None
Management Response and Corrective Action	With the implementation of corrective actions detailed in Finding 2015-002, we expect to avoid or, at least, reduce the use of the license tax revenues collected in advance, in future fiscal years.
Status:	Partially Corrected
	Implementation Date: During Fiscal Year 2016-2017
	Responsible Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-006
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Financial Reporting – Accounting Records (L) (MW)
Statement of Condition	<p>During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers Program did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.</p> <p>The Section 8 Housing Vouchers Program accounting records are not designed to provide information necessary for the preparation of the Financial Status, Supplemental Reports and Financial Data Schedule (FDS) in accordance with compliance requirements. The accounting system does not summarize the transactions in a formal chart of accounts in order to properly record and account for the transactions of all reports required by the Program.</p>
Criteria	<p>24 CFR Subpart C, Part 85.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.</p> <p>24 CFR Subpart D Section 982.158 (a), establishes that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms or record-keeping. The must comply with the financial reporting requirement in 24 CFR part 5, subpart K.</p>
Cause of Condition	<p>The Program did not establish effective procedures for the reconciliation of Financial Reporting HUD-52681-B, expenses and unit reported to federal agency versus the data recorded in the accounting record.</p>
Effect of Condition	<p>The Municipality's is not in compliance with 24 CFR Subpart C, Part 85.20 (b) (2) and 24 CFR Subpart D Section 982.158 (a). The Program's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions. In additions, the Program's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.</p>

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 2015-006 (continued)

Recommendation We recommend Management strengthens its procedures to reconcile, in a timely manner, the federal funds reports with the accounting records in order to produce reliable financial data.

The Program's management gave instructions to the program accountant to modify the accounting records in order to comply with the Program's financial management and accounting requirements.

Questioned Costs None

**Management Response
and Corrective Action**

The acting Finance and Budget Director assigned to an Executive Officer (accountant) the responsibility of evaluate the procedures used by the program to prepare the financial reports and to design written procedures necessities to assure proper and timely reconciliation of the transactions recorded in the program with those processed and recorded in the Municipal Accounting Department. This evaluation will permit to identify and implement internal procedures to modify the program accounting records to assure the compliance with the financial management and accounting requirements.

As indicated in the response to Finding 2015-003, the Municipality will acquire a new financial and accounting system, which will include software applicable to the Federal Programs, including the Section 8 Program.

Status: Still in Process

Implementation Date: July 2016

Responsible Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director, Mr. Ian Carlo Serna, Program Director and Mr. Jayson Vega, Program Supervisor.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-007
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Reporting (L) (MW)
Statement of Condition	We performed a reporting test and we noted that the unaudited financial data (submitted electronically) was not submitted to HUD through the Real Estate Assessment Center (REAC) in the stipulated time.
Criteria	OMB No. 2535-017, 24 CFR section 5.801, requires PHA to submit timely GAAP-based unaudited and audited financial information electronically to HUD through the Real Estate Assessment Center (REAC).
Cause of Condition	The Program's accounting records did not comply with HUD requirements and were not adequate for the preparation of reports.
Effect of Condition	The Municipality's is not in compliance with OMB No. 2535-017, 24 CFR section 5.801. The Program's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions. In addition, the Program's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.
Recommendation	We recommend that Management should strengthen its procedures to reconcile, in a timely manner, the federal funds reports with the accounting records in order to produce reliable financial data. The Program's management gave instructions to the program accountant to modify the accounting records in order to comply with the Program financial management and accounting requirements.
Questioned Costs	None
Management Response and Corrective Action	A schedule of report submission will be adopted and the Accounting Unit Director will be responsible of its implementation.
Status:	Still in Process
	Implementation Date: July 2016
	Responsible Person: Mr. Ian Carlo Serna, Program Director, Mr. Jayson Vega, Program Supervisor and Mr. Osvaldo Maldonado, Accounting Unit Director (Local Level)

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-008
Program	Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services
Requirement	Earmarking – Administrative Cost Limits (G)
Statement of Condition	During our audit procedures, we noted that the accounting system maintained by the Head Start Program did not provide for the classification and recording of financial transactions between administrative and programmatic expenditures. Alternate procedures were used by the Program's staff to compute compliance with the fifteen percent (15%) administrative costs limit.
Criteria	45 CFR, Subpart C, Section 92.20 (a) (2) states that the sub grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.
Cause of Condition	The Program's accounting records did not provide a chart of accounts to individually account programmatic and administrative expenditures.
Effect of Condition	The Program is not in compliance with 45 CFR, Subpart C 92.20 (a) (2).
Recommendation	We recommend Management modifies the accounting system's chart of accounts to create a separate account for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.
Questioned Costs	None
Management Response and Corrective Action	Actually the Program is implementing the MIP System, which will provide for the issuance of separate reports for both type of expenditures; administrative and programmatic.
Status:	Partially Corrected
	Implementation Date: Fiscal year 2016-2017
	Responsible Person: Mr. José León Gaud, Fiscal Officer

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-009
Program	Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services
Requirement	Reporting – Financial Administration (MW)
Statement of Condition	In our Reporting Test, we could not trace the amounts reported in the monthly Financial Reports to the Program’s accounting records since the Municipality does not maintain a general ledger. As an alternate procedure, we compared the amounts reported as federal expenditures in the monthly Financial Reports and the amounts detailed in the supporting accounting documentation used for the preparation of these reports and there were significant differences between the amounts reported and the ones detailed in such documentation.
Criteria	The OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.
Cause of Condition	Adequate internal controls do not exist to ensure the correctness of the quarterly reports submitted to the federal agency.
Effect of Condition	The program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1).
Recommendation	We recommend the Program establishes monitoring procedures to ensure the accuracy and completeness of accounting records and correct preparation and submission of the monthly financial reports.
Questioned Costs	None
Management Response and Corrective Action	The referred differences were caused by information not updated in the Municipal Accounting System (SIGMA) used by the Program to prepare the financial reports. As indicated in the response to the finding 2015-008, actually the Program is implementing the MIP System, which will permit the correct preparation and submission of the monthly financial reports.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 2015-009 (continued)

**Management Response
and Corrective Action**

Also, the acting Finance and Budget Director assigned to an Executive Officer (accountant) the responsibility of evaluate the procedures used by the Program to prepare the financial reports and to design written procedures necessaries to assure the accuracy and completeness of accounting records and correct preparation and submission of the monthly financial reports.

Implementation Date: During fiscal year 2016-2017

Responsible Persons: Mr. Javier Negrón Olivieri, Program Director

Mr. José León Gaud, Fiscal Officer

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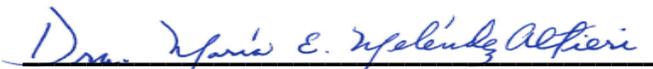
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

Contact Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2014-01 (FS)	Operating Deficit of General Fund (MW)	The Municipality closed its fiscal year ended June 30, 2014 with a fund deficit, before providing reserves in the general fund, of \$38,833,223. Also, the Municipality closed with an accumulated unassigned deficit of \$54,615,764. The Municipality's internal control relating to the budgeting function does not adequately prevent management from incurring expenditures in excess appropriated funds. In addition, the deficit was caused by the overstatement of estimated revenues and the incurrence of obligations without available credit in the budgetary accounts.	<p>The Municipality of Ponce has taken the following measurements to avoid future operational deficits at end of year and to reduce the accumulated deficit:</p> <ul style="list-style-type: none"> • Beginning on March 2013 a labor reduction policy was implemented consisting in reducing to all employees, two (2) labor days per month and 5% of reduction in the salaries for Department Directors and confidence personnel. • An early termination was declared to all appointment in the transitory and irregular service, except some positions necessary to guarantee the continuity of public services. 	None	Not resolved yet. See current finding number 2015-002

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


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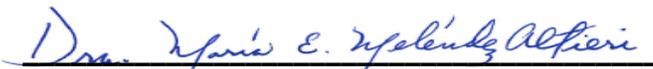
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

Contact Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<ul style="list-style-type: none"> • Beginning on February 2013, a reduction of 5% of the contract amount was established to all provider or professional services. • A provision for deficit reserve of \$50,000 was included in the municipal budget of the fiscal year 2013-2014. • Beginning on fiscal year 2013-2014, the Municipality contracts the insurance policies directly with the insurance agencies as authorized by Law Number 63 approved on June 21, 2010. As a result of such measurement the Municipality saved \$505,145.53 in insurance policies 		

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Hon. María E. Meléndez Altieri, Mayor

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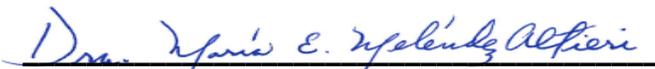
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

Contact Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>applicable to that fiscal year. On September 13, 2013 the Municipal Legislature authorized to the Director of Finances and Budget, by means of the Resolution Number 23, Series of 2013-2014 to make a credit transference in the effective budget for year 2013-2014, to increase by \$505,145.53 the budgetary item "Deficit of Previous Years", which is used to amortize the accumulated deficit.</p> <ul style="list-style-type: none"> On May 2014, the Municipal Legislature approved by means of the Municipal Ordinance Number 74, Series of 2013-2014, a new labor reduction policy of 3.5 hours daily to the employees of service of 		

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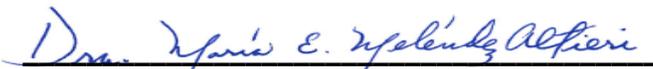
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>the regular or probatory and to the transitory and irregular employees, whose wages are covered by the municipal general fund or with funds of the Work Force Investment Act Program (WIA). Also, a reduction of 10% of the monthly wage was approved to the Mayor, directors of the administrative units and the employees under confidence service of the executive branch. Simultaneously, the Municipal Legislature established a reduction of 5% of the monthly wage applicable to its employees. Such labor reduction policy began on July 2014.</p> <ul style="list-style-type: none"> The municipal general budget for the fiscal year 		

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>2014-2015 was reduced for the amount of \$12,180,730 in comparison with the prior year budget.</p> <ul style="list-style-type: none"> The Municipal Financial Team is evaluating additional alternatives to decrease expenses and increase income in order to avoid deficits in the current and future budgets and to reduce the accumulated deficit. 		
2013-01 (FS)	Operating Deficit of General Fund (MW)	The Municipality closed its fiscal year ended June 30, 2013 with a fund deficit, before providing reserves in the general fund, of \$36,280,976. Also, the Municipality closed with an accumulated unassigned deficit of \$53,542,722. The Municipality's internal control relating to the budgeting function does not adequately prevent management from incurring expenditures in excess appropriated funds. In addition, the deficit was caused by the overstatement of estimated revenues and the incurrence of obligations without available credit in the budgetary accounts.	<p>The Municipality of Ponce has taken the following measurements to avoid future operational deficits at end of year and to reduce the accumulated deficit:</p> <ul style="list-style-type: none"> Beginning on March 2013 a labor reduction policy was implemented consisting in reducing to all employees, two 	None	Not resolved yet. See current finding number 2015-002

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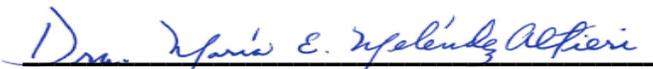
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Contact Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>(2) labor days per month and 5% of reduction in the salaries for Department Directors and confidence personnel.</p> <ul style="list-style-type: none"> • An early termination was declared to all appointment in the transitory and irregular service, except some positions necessary to guarantee the continuity of public services. • Beginning on February 2013, a reduction of 5% of the contract amount was established to all provider or professional services. • A provision for deficit reserve of \$50,000 was included in the municipal budget of the fiscal year 2013-2014. • Beginning on fiscal year 2013-2014 the Municipality contracts the insurance policies directly with the insurance 		

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>agencies as authorized by Law Number 63 approved on June 21, 2010. As a result of such measurement the Municipality saved \$505,145.53 in insurance policies applicable to that fiscal year. On September 13, 2013 the Municipal Legislature authorized to the Director of Finances and Budget, by means of the Resolution Number 23, Series of 2013-2014 to make a credit transference in the effective budget for year 2013-2014, to increase by \$505,145.53 the budgetary item "Deficit of Previous Years", which is used to amortize the accumulated deficit.</p> <ul style="list-style-type: none"> The Municipal Financial Team is evaluating additional alternatives to decrease expenses and increase income in order to avoid deficits in the current and future budgets and to reduce the accumulated 		

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Phone: (787) 284-4141, ext. 2115

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			deficit.		
2014-02 (F/S)	Financial Reporting– Accounting Records (MW)	During our examination of the Municipality’s accounting system, we noted that the accounting data still require several reporting adjustment in order to present the Municipality’s financial statements in the modified accrual basis of accounting. Also, the accounting data requires several reporting adjustments to produce government wide financial statements.	As a measurement to achieve an accounting system that provide updated and complete financial information, the Finance and Budget Director have strengthened the existing internal control and procedures related to the accounting system. The accounting department was reorganized in order to assure the implantation of such control and procedures. A new accounting system will be acquired during fiscal year 2016-2017.	None	Not resolved yet. See current year finding number 2015-003.
2013-02 (F/S)	Financial Reporting– Accounting Records (MW)	During our examination of the Municipality’s accounting system, we noted that the accounting data still require several reporting adjustment in order to present the Municipality’s financial statements in the modified accrual basis of accounting. Also, the accounting data requires several reporting adjustments to produce government wide financial statements.	As a measurement to achieve an accounting system that provide updated and complete financial information, the Finance and Budget Director assigned a special committee to identify and write the	None	Not resolved yet. See current year finding number 2015-003.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			adequate internal control and procedures necessary to maintain an accounting system containing information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc. A new accounting system will be acquired during fiscal year 2016-2017.		
2014-03-(FS)	Reconciliation Procedures – Federal Programs (MW)	The Municipality has not established internal controls to ensure the timely and accurate reconciliation of the accounting records maintained by program accountants with those maintained within the Municipality. Funds received from the U.S. Department of Housing and Urban Development for the Cluster – Community Development Block Grant – Entitlement, Cluster – Section 8 Housing Choice Vouchers and Home Investment Partnership Program and from U.S. Department of Health and Human Services for Cluster – Head Start Program and HIV Emergency Relief Project Grants are managed by their own administrative personnel, which include their own accounting departments. Each maintains a	The Finance and Budget Director requested to a municipal accountant (executive officer) that identify the necessary procedures for the monthly reconciliation of the transactions recorded in the federal program's accounting records with those recorded in the municipal accounting department. This measurement will permit to prevent or to detect errors and to ensure that federal financial	None	Not resolved yet. See current finding number 2015-004.

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Contact Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>separate set of accounting records kept on a double entry system. However, we noted that <i>none</i> of these departments or the Municipality's central accounting department, have established the necessary policies and procedures for the reconciliation of the transactions recorded in the Program's accounting records with those recorded within the Municipality's central accounting department.</p> <p>This condition may cause not detecting or preventing errors or irregularities on a timely basis because there is no central oversight of all of the Municipality's financial operations. The Finance Director is currently placing reliance upon the accounting records maintained by each of the Programs without having any control procedure to detect inconsistent accounting treatments. The Municipality should be aware of its responsibility for administering the grants even though a separate fiscal unit or department is assigned the responsibility of administering the funds.</p>	<p>reports are prepared based on the financial information once reconciled.</p>		

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2016

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COMMONWEALTH OF PUERTO RICO
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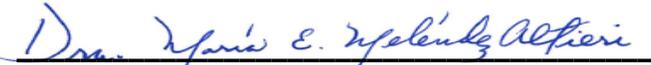
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status

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Hon. María E. Meléndez Altieri, Mayor

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Phone: (787) 284-4141, ext. 2115

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2013-03-(FS)	Reconciliation Procedures – Federal Programs (MW)	<p>The Municipality has not established internal controls to ensure the timely and accurate reconciliation of the accounting records maintained by program accountants with those maintained within the Municipality. Funds received from the U.S. Department of Housing and Urban Development for the Cluster – Community Development Block Grant – Entitlement, Cluster – Section 8 Housing Choice Vouchers and Home Investment Partnership Program and from U.S. Department of Health and Human Services for Cluster – Head Start Program, are managed by their own administrative personnel, which include their own accounting departments. Each maintains a separate set of accounting records kept on a double entry system. However, we noted that <i>none</i> of these departments or the Municipality's central accounting department, have established the necessary policies and procedures for the reconciliation of the transactions recorded in the Program's accounting records with those recorded within the Municipality's central accounting department.</p> <p>This condition may cause not detecting or preventing errors or irregularities on a timely basis because there</p>	<p>The Finance and Budget Director Municipality will establish and implement policies and procedures for the reconciliation of the transactions recorded in the Federal Program's accounting records with those recorded in the municipal accounting department, in order to ensure that all federal financial reports are prepared based on the financial information once reconciled.</p>	None	Not resolved yet. See current finding number 2015-004.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

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March 31, 2016
Date

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and Circular OMB A-133

Audit Period: July 1, 2014 – June 30, 2015

Fiscal Year: 2014-2015

Principal Executive: Hon. María E. Meléndez Altieri, Mayor

Contact Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>is no central oversight of all of the Municipality's financial operations. The Finance Director is currently placing reliance upon the accounting records maintained by each of the Programs without having any control procedure to detect inconsistent accounting treatments.</p> <p>The Municipality should be aware of its responsibility for administering the grants even though a separate fiscal unit or department is assigned the responsibility of administering the funds.</p>			

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


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Phone: (787) 284-4141, ext. 2115

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2014-04-(FS)	Municipal License Tax Revenues (MW)	Municipal license tax revenues of the fiscal year 2014-2015, which were collected in advance from taxpayers between January 1 thru June 30, 2014 (known in Spanish as "Patente en Suspense"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund during the fiscal	With the implementation of corrective actions taken to the Finding 2014-01, we expect to avoid or, at least, reduce the use of the license tax revenues collected in	None	Not resolved yet. See current finding number 2015-005.

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		year ended June 30, 2014. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2014-2015, and must not be used to pay obligations of the prior year.	advance, in future fiscal years.		

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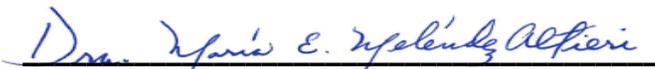
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2013-04-(FS)	Municipal License Tax Revenues (MW)	Municipal license tax revenues of the fiscal year 2013-2014, which were collected in advance from taxpayers between January 1 thru June 30, 2013 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund during the fiscal year ended June 30, 2013. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2013-2014, and must not be used to pay obligations of the prior year.	With the implementation of corrective actions taken to the Finding 2013-01, we expect to avoid or, at least, reduce the use of the license tax revenues collected in advance, in future fiscal years.	None	Not resolved yet. See current finding number 2015-005.

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Hon. María E. Meléndez Altieri, Mayor

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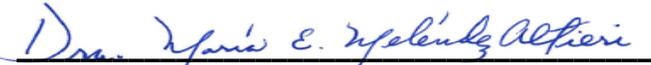
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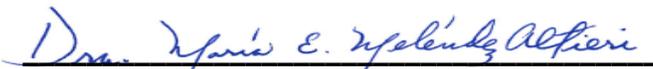
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2013-05-(FS)	Inadequate Transfers (MW)	The Municipality transfers certain restricted funds to the general operating fund on a temporary basis. These funds were granted by the Commonwealth of Puerto Rico for specific restricted purposes. However, these funds have been properly reflected in the accompanying basic financial statements as amounts due to and due from the respective funds.	As indicated in this finding, the nature of the transfers realized was temporary and the funds have been properly reflected in the basic financial statements as amounts due to and due from the respective funds. Also, the funds assigned by the Puerto Rico Legislature were registered and accounted for in the corresponding expenditure account (Resoluciones Conjuntas). The Municipality observed due procurement procedure for the acquisition of property or services applicable to the assigned funds, as established in the local law and regulation. The projects related to the 99% of funds assigned by the Puerto Rico Legislature have been realized or are in construction process. In addition, after June 2013 the Municipality refunded all the transferred funds to the	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2013-2014 and 2014-2015.

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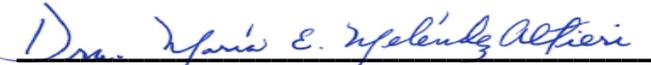
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			corresponding bank account.		

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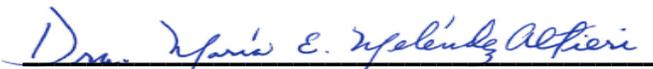
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2014-05 Cash Management (C) (I) (MW)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	The Municipality's internal control over compliance with the cash management requirements of federal program is not effective since it is not minimizing the time elapsed between the receipt and disbursement of funds. In our drawdown test over twenty-seven (27) fund requisitions, we noted the following exceptions: a. In six (6) fund requisitions for \$57,277.96, we observed that the Municipality made the	The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by CDBG regulations. Federal funds should only be requested when they are going to be disbursed immediately after	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2014-2015.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status																																						
		<p>disbursements between six (6) to three hundred and eighty-third (383) days after the deposits. The following table summarizes the situation noted:</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Date of Requisition</th> <th style="text-align: center;">Requisition Number</th> <th style="text-align: center;">Amount of Disbursement</th> <th style="text-align: center;">Days Elapsed</th> </tr> </thead> <tbody> <tr> <td rowspan="2" style="text-align: center;">August 28, 2013</td> <td rowspan="2" style="text-align: center;">5600143</td> <td style="text-align: right;">\$244.78</td> <td style="text-align: center;">383</td> </tr> <tr> <td style="text-align: right;">366.00</td> <td style="text-align: center;">201</td> </tr> <tr> <td style="text-align: center;">October 15, 2013</td> <td style="text-align: center;">5623288</td> <td style="text-align: right;">2,895.00</td> <td style="text-align: center;">134</td> </tr> <tr> <td style="text-align: center;">October 24, 2013</td> <td style="text-align: center;">5620794</td> <td style="text-align: right;">16,163.97</td> <td style="text-align: center;">6</td> </tr> <tr> <td style="text-align: center;">December 11, 2013</td> <td style="text-align: center;">5636310</td> <td style="text-align: right;">31,425.08</td> <td style="text-align: center;">14</td> </tr> <tr> <td style="text-align: center;">December 16, 2013</td> <td style="text-align: center;">5637922</td> <td style="text-align: right;">1,971.81</td> <td style="text-align: center;">8</td> </tr> <tr> <td style="text-align: center;">March 5, 2014</td> <td style="text-align: center;">5664176</td> <td style="text-align: right;">3,383.59</td> <td style="text-align: center;">7</td> </tr> </tbody> </table> <p>b. The bank reconciliations, shows average monthly cash balance of \$69,832.98 in the CDBG – Entitlement Bank Account. The cash balance shows a higher cash balance in the following months:</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Month</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">April 2014</td> <td style="text-align: right;">\$ 103,719.88</td> </tr> <tr> <td style="text-align: center;">May 2014</td> <td style="text-align: right;">\$ 104,270.06</td> </tr> <tr> <td style="text-align: center;">June 2014</td> <td style="text-align: right;">\$ 106,865.72</td> </tr> </tbody> </table>	Date of Requisition	Requisition Number	Amount of Disbursement	Days Elapsed	August 28, 2013	5600143	\$244.78	383	366.00	201	October 15, 2013	5623288	2,895.00	134	October 24, 2013	5620794	16,163.97	6	December 11, 2013	5636310	31,425.08	14	December 16, 2013	5637922	1,971.81	8	March 5, 2014	5664176	3,383.59	7	Month	Amount	April 2014	\$ 103,719.88	May 2014	\$ 104,270.06	June 2014	\$ 106,865.72	receipt, or within five (5) business days.		
Date of Requisition	Requisition Number	Amount of Disbursement	Days Elapsed																																								
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2013-06 Cash Management (C) (I) (MW)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	<p>The Municipality's internal control over compliance with the cash management requirements of federal program is not effective since it is not minimizing the time elapsed between the receipt and disbursement of funds. In our test of seventeen (17) fund requisitions, we noted the following exceptions:</p> <p>a) In three (3) fund requisitions for \$192,620, we observed that the Municipality made the disbursements between six (6) to nine (9) days after the deposits;</p> <p>b) The bank reconciliations (BR), shows average monthly cash balance of \$12,989 in the CDBG – Entitlement Bank Account. The cash balance shows a higher cash balance in the following months:</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">Month</th> <th style="text-align: right;">(BR) Amount</th> </tr> </thead> <tbody> <tr> <td>February 2013</td> <td style="text-align: right;">\$ 114,615</td> </tr> <tr> <td>March 2013</td> <td style="text-align: right;">\$ 109,472</td> </tr> <tr> <td>April 2013</td> <td style="text-align: right;">\$ 163,832</td> </tr> <tr> <td>May 2013</td> <td style="text-align: right;">\$ 96,815</td> </tr> </tbody> </table> <p>c) The bank reconciliations in the CDBG – Entitlement Bank Account. The cash balance shows a negative cash balance in the following months:</p>	Month	(BR) Amount	February 2013	\$ 114,615	March 2013	\$ 109,472	April 2013	\$ 163,832	May 2013	\$ 96,815	<p>The Program will coordinate with Municipal Finance Department to implement Corrective Action Plan. The plan will review and update policies and processes to reduce the time between the drawdown and payment of the funds. The cash management policies and operating procedures will be in writing and adopted as an internal control procedure in the Program. One of the key item of the procedure will be that no single individual will control a transaction from beginning to end. The manager of the accounting area of the Program will be responsible and accountable of the establishing of the procedure in combination with the Finance Director of the Municipality.</p>	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2014-2015.
Month	(BR) Amount														
February 2013	\$ 114,615														
March 2013	\$ 109,472														
April 2013	\$ 163,832														
May 2013	\$ 96,815														

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2014-006 Eligibility (E)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	<p>We performed an eligibility test and examined a sample of sixty (60) participant files. The following summarize the deficiencies found:</p> <p>a) In three (3) cases, the Family Report (form HUD 50058) presents the following errors in HAP calculations:</p> <ul style="list-style-type: none"> • In one (1) case the program deducted a medical allowance when it wasn't applicable, causing an overpayment to the participant by \$234 during fiscal year 2013-2014; • In one (1) case the participant's income was duplicated creating an underpayment to the participant's HAP; • In one (1) case the participant's income 	The Program will provide additional training to the technical personnel on documentation and verification process. Also, the Program Director implemented procedures to monitor the performance in the technical area.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2014-2015.														

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		<p>calculation was overstated causing errors in the HAP calculation.</p> <p>b) In one (1) case, evidence of the authorization of the participant for the PHA submission of third party verification was not identified in the file.</p> <p>c) In two (2) cases the participant's Privacy Act Notice did not contain de date when it was signed.</p> <p>d) In ten (10) cases the following situations were noted related with the Enterprise Income Verification (EIV):</p> <ul style="list-style-type: none"> • In six (6) cases the EIV form was not identified in the participant's file; • In two (2) cases the EIV form was not completed in all of its parts; • In two (2) cases the EIV form was completed sixty (60) days after the admission of these participants. <p>e) In twelve (12) cases the reasonable rent determination was performed after the submission of the Family Report. Also, in one (1) case the reasonable rent determination was not identified in the file.</p>			

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		<p>f) In five (5) cases the following situations were noted related with the Inspection Checklist (Form HUD-52580):</p> <ul style="list-style-type: none"> • In one (1) case the form was not marked as pass or fail. • In three (3) cases where the form was marked as fail we did not identify evidence of the repairs; • In one (1) case where the inspection was fail due to electrical faults, we did not identify that the repairs were made on 24 hours. 			
2014-007 Financial Reporting Accounting Records (L) (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	<p>During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.</p> <p>The Section 8 Housing Vouchers Program accounting records are not designed to provide information necessary for the preparation of the Financial Status,</p>	As indicated in response to Finding 2014-003, the Finance and Budget Department will evaluate the program accounting system in order to identify the necessaries procedures for the monthly reconciliation of the transactions recorded in the federal program's accounting	None	Not resolved yet. See current finding number 2015-006.

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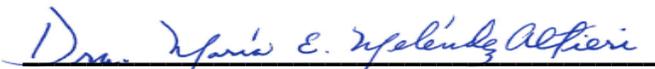
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

Contact Person: Mrs. Jessica Torruellas Rivera, Finance and Budget Director

Phone: (787) 284-4141, ext. 2115

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		Supplemental Reports and Financial Assessment Subsystem (FDS) in accordance with compliance requirement program. The accounting system does not summarize the transactions in a formal chart of accounts in order to properly record and account for the transactions of all reports required by the Program.	records with those recorded in the municipal accounting department. This evaluation will permit to identify and implement internal procedures to reconcile the federal funds reports with the program's accounting records in order to produce reliable financial data. The Program will continue the implementation of the MIP System.		

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2016

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

Audit Report: Reports on Compliance and Internal Control in Accordance with Governmental Auditing Standards and Circular OMB A-133

Audit Period: July 1, 2014 – June 30, 2015

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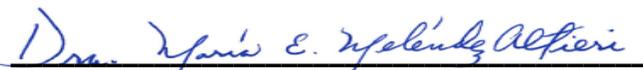
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2013-07 Reporting (I) (MW)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	<p>The Municipality's internal control over the preparation of federal financial reports is not effective. The Municipality is not ensuring that the Financial Summary Report (CO4PR26) submitted to the federal grantor contains accurate financial information. We examined the financial data within the 2012 Annual Performance and Evaluation Report submitted by the Municipality and we noted the following exceptions:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Line on Report</th> <th style="text-align: center;">Amount per Report</th> <th style="text-align: center;">Amount per Books</th> <th style="text-align: center;">Difference</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Part II, Line 15 - Total Expenditures</td> <td style="text-align: right;">4,358,080.90</td> <td style="text-align: right;">4,349,161.30</td> <td style="text-align: right;">8,919.60</td> </tr> <tr> <td style="text-align: center;">Part III, Line 31 – Total Public Service Obligation</td> <td style="text-align: right;">413,818.82</td> <td style="text-align: right;">502,881.27</td> <td style="text-align: right;">(89,062.45)</td> </tr> <tr> <td style="text-align: center;">Part III, Line 41 – Total Planning and Administration</td> <td style="text-align: right;">528,822.23</td> <td style="text-align: right;">640,889.31</td> <td style="text-align: right;">(112,067.08)</td> </tr> </tbody> </table>	Line on Report	Amount per Report	Amount per Books	Difference	Part II, Line 15 - Total Expenditures	4,358,080.90	4,349,161.30	8,919.60	Part III, Line 31 – Total Public Service Obligation	413,818.82	502,881.27	(89,062.45)	Part III, Line 41 – Total Planning and Administration	528,822.23	640,889.31	(112,067.08)	<p>The Program will review and corroborate the information included in the consolidated annual performance report before submission to HUD. At year end, the accuracy and consistency of the Financial Status Report will be reviewed, the Program shall determine whether an adjustment to the IDIS Report (CO4PR26) is required. The review will include the identification of obligation pending payment, bank reconciliation and the comparison to the trial balance. This report will identify original appropriations, transfer, adjusted actions, obligations, disbursements, and balances for each activity.</p> <p>This will allow a continuous monitoring, together with the IDIS reports, of all activities registered in IDIS and the Finance Office. For the public</p>	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2013-2014 and 2014-2015.
Line on Report	Amount per Report	Amount per Books	Difference																		
Part II, Line 15 - Total Expenditures	4,358,080.90	4,349,161.30	8,919.60																		
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			service and administrative items the Program will explain any differences between the books and the CO4PR26 report.		
2013-08 Sub-Recipient Monitoring (M)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	During our Sub-recipient Monitoring test, we found that the program did not comply with applicable requirements for fiscal monitoring to service provider's financial and accounting records.	The Program will prepare a monitoring plan to monitor CDBG activities including project undertaken by sub-recipients. The Plan will be included in the 2013-2014 Consolidated Plan. The Monitor plan will include: perform desk reviews for all open year grant projects funded under the CDBG program, field visits to monitor work in progress and completed projects, telephone or office conference assistance to grantees, preparation of reports, follow up on corrective actions.	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2013-2014 and 2014-2015.

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2014-08 Cash Management (C) (MW)	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services	<p>We performed a Cash Management Test and examined (36) fund requisitions performed during the program year ended on June 30, 2014. Also, we verified the bank statements and cash reconciliation for that period. The following summarizes the situations found:</p> <ul style="list-style-type: none"> a) We couldn't identify the disbursements of seven (7) requisitions of funds. Also, three (3) requisitions were issued without supporting documents. The actual results were not reconciled to assure that the fund requisition was consistent with realistic cash needs. b) We identify that the program transferred restricted funds to the general operating fund on a temporary basis. However, these funds have been reimbursed to the Head Start program later in the year. c) The disbursements related to 5 requisitions of funds were made between 4 to 10 days after the deposits were made. d) The bank reconciliations show average monthly cash balance of \$69,320 in the Head Start Bank Account. The cash balance shows 	<p>The Finance and Budget Department will establish procedures to assure that each fund request contain the corresponding supporting documents and to identify the disbursements to each requisition of fund.</p> <p>Also, the Program has established a procedure to improve the cash management, which permits a more effective control over cash in the bank account.</p>	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2014-2015.

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Hon. María E. Meléndez Altieri, Mayor

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		<p>a higher reconciled cash balance in the following months:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Month</th> <th style="text-align: center;">Adjusted Bank Cash Balance per Reconciliation</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Aug-13</td> <td style="text-align: center;">80,517.21</td> </tr> <tr> <td style="text-align: center;">Sep-13</td> <td style="text-align: center;">88,931.97</td> </tr> <tr> <td style="text-align: center;">Oct-13</td> <td style="text-align: center;">101,509.89</td> </tr> <tr> <td style="text-align: center;">Nov-13</td> <td style="text-align: center;">89,874.29</td> </tr> </tbody> </table>	Month	Adjusted Bank Cash Balance per Reconciliation	Aug-13	80,517.21	Sep-13	88,931.97	Oct-13	101,509.89	Nov-13	89,874.29			
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2013-09 Financial Reporting – Accounting Records (L) (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	<p>During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.</p> <p>The Section 8 Housing Vouchers Program accounting records are not designed to provide information necessary for the preparation of the Financial Status, Supplemental Reports and Financial Assessment Subsystem (FDS) in accordance with compliance requirement program. The accounting system does not summarize the transactions in a formal chart of</p>	Although the program management disagrees with the finding, the Program will prepare and adopt a new financial procedure that will review the content of the existing financial records. The review will include the verification of compliance with the applicable regulation to determine if changes are necessary. Once the procedure is prepared, training will be provided to the local staff to	None	Not resolved yet. See current finding number 2013-009.										

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		accounts in order to properly record and account for the transactions of all reports required by the Program.	assure its implementation.		
2013-10 Cash Management (C) (MW)	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services	<p>During our cash management test for the program year 2012 and part of the 2013, we examined over twenty eight (28) requisitions of funds and after our procedures, we found the following exceptions:</p> <p>a) Two (2) of the requisitions of funds were issued without the supporting documents. The actual results were not reconciled to assure that the fund requisition was consistent with realistic cash needs;</p> <p>b) As result of our test of twenty eight (28) requisition of funds \$57,637 were request in excess of the realistic needs, in one case because it was duplicated (\$51,067) and in thirteen (13) cases (\$6,570) because the requisition amount was calculated with estimated amounts and was not reconciled with the actual disbursements.</p> <p>c) The bank reconciliations show average monthly cash deficit of \$115,058 in the Head Start Bank Account. The cash balance shows a lower reconciled cash balance in the following months:</p>	<p>The Program Director will change the person authorized to approve requisitions of funds in the HHS Payment Management System (Item a).</p> <p>The program Fiscal Manager will improve the procedure of file of supporting document related to de requisition of funds (Item b).</p> <p>This is an isolated situation caused by summer and Christmas shutdown, in which the program has been forced to make advanced request of fund related to the payroll payable during the shutdown (Item c).</p> <p>This situation occurred in year 2011 because the Program did not considerate the increase of</p>	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2014-2015.

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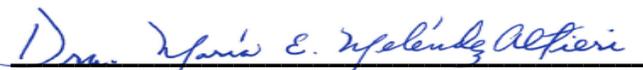
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Month	Reconciled Balance																										
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2014-09 Earmarking Administrative Cost Limits (G)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	During our audit procedures we noted that the accounting system maintained by Head Start Program did not provide for the classification and recording of financial transactions between administrative and programmatic expenditures. Alternate procedures were used by the Program staff to compute compliance with the fifteen percent (15%) administrative costs limit.	The Chart of Accounts of the MIP System will be revised in order to create different account numbers to administrative and programmatic expenditure. Similarly, the chart of accounts of the accounting system (SIGMA) used in the Municipality will be revised to the same purpose. This measurement will permit the issuance of separate reports both type of expenditure; administrative and programmatic.	None	Not resolved yet. See current year finding number 2015-008.
2013-11 Matching, Level of Effort, Earmarking – Administrative Cost Limits (G)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	The accounting system maintained by Head Start Program did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percent (15%) administrative costs limit.	Effective on July 2012, the Program prepare purchase orders separated for administrative and programmatic expenditures and identified and allocated appropriately cost with dual benefits, using a cost-benefit proportion.	None	Not resolved yet. See current year finding number 2015-009.

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2014-10 Accounting Records (L) (MW)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	During our audit, we noted that the Program staff did not maintain an adequate set of accounting records for the Head Start Program to fairly present the financial position of the program and results of its operations. The financial information reported in the financial reporting is based on accounting information compiled from different sources and not from a complete set of accounting records, resulting in errors in the amounts reported in the Federal Financial Report (Standard Form 425) submitted during program year.	Actually, the Program is implementing the MIP System. When the system has been completed, the financial information reported will be based on accounting information provided by MIP System.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2014-2015.
2013-12 Accounting Records (L) (MW)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	During our audit, we noted that the accounting records maintain for Head Start Program do not fairly present the financial position of the program and the results of its operations. We found that \$414,490 related to the employees' fringe benefit (health insurance) were paid with the 2012 budget but not recorded as expense and \$99,052.25 were transferred from the Municipality to the Head Start bank account to cover part of this expense but it was not correctly registered. In addition, the program incurred in costs for payroll and fringe benefits in excess of the approved balances in the grant award.	The Program Accounting Supervisor trained to the employee in charge in the preparation of budget and financial report to ascertain that the accounting system complies with state and federal law and that the budget be prepared according to realistic needs and be expended as established. In addition, the Program will implement internal control procedures to assure that the use of Federal funds is restricted	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2014-2015.

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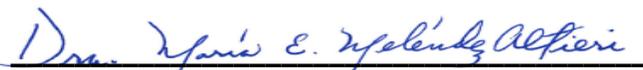
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			Beginning on January 2012, the Program implemented the Mechanized Accounting System (MIP) and a comparative analysis between the information provided by the Municipal Accounting System (SIGMA) and the MIP		
2013-13 Reporting - Financial Administration (L) (MW)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report and the quarterly Cash Transaction Reports submitted to the federal agency and the amounts detailed in the general ledger, and bank reconciliations. As result, the financial reports do not agree with the program accounting records.	With the implementation of the Mechanized System of Accounting MIP and the comparative analysis between SIGMA and MIP we expect to correct the situations mentioned in this finding.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2013-2014.
2014-011 - Sub-Recipient Monitoring (M)	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services	During our Sub-recipient Monitoring test, we found that the program did not comply with applicable requirements for fiscal monitoring. The program did not shall evidence concerning the Statement of work, reports and accounting records.	The Program realized the fiscal monitoring to sub-recipients corresponding to the fiscal year 2012-2013 and 2013-2014. Also, the Program contracted a monitor to realize the fiscal monitoring for subsequent years.	None	This finding was not included in fiscal year 2014-2015 single audit report.

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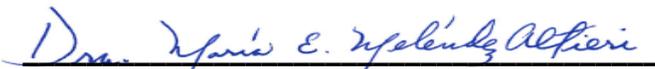
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2013-14 Sub-Recipient Monitoring (M)	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services	During our Sub-recipient Monitoring test, we found that the program did not comply with applicable requirements for fiscal monitoring. The program did not shall evidence concerning the Statement of work, reports and accounting records.	The Program realized the fiscal monitoring to sub-recipients corresponding to the fiscal year 2012-2013 and 2013-2014. Also, the Program contracted a monitor to realize the fiscal monitoring for subsequent years.	None	This finding was not included in fiscal year 2014-2015 single audit report.

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