

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE PONCE
AUDITORIA 2006-2007
30 DE JUNIO DE 2007

COMUNIDAD MUNICIPAL DE PONCE
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Y FISCALIA
Calle 5-523

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
AND INDEPENDENT AUDITORS' REPORT**

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the **Municipality of Ponce**, (“the Municipality”), as of and for the year ended June 30, 2007, which collectively comprise the **Municipality’s** basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the **Municipality’s** management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C.D. (“Patronato”), which is shown as discretely, presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Patronato, is based on the report of the other auditor.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the other governmental funds of the **Municipality of Ponce** as of June 30, 2007 and the respective change in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and the report of other auditor, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the **Municipality of Ponce** as of June 30, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

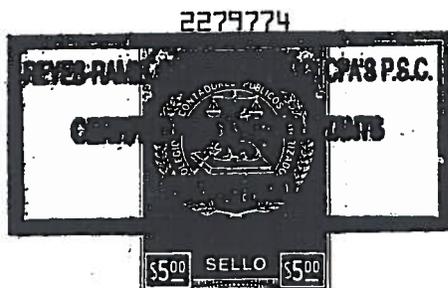
As discussed in Note 1, certain changes and restatements were made to the reporting entity as presented in the accompanying basic financial statements.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

December 20, 2007

Rayas-Ramis, Wapuli & Co.

License number 6
Ponce, Puerto Rico



COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

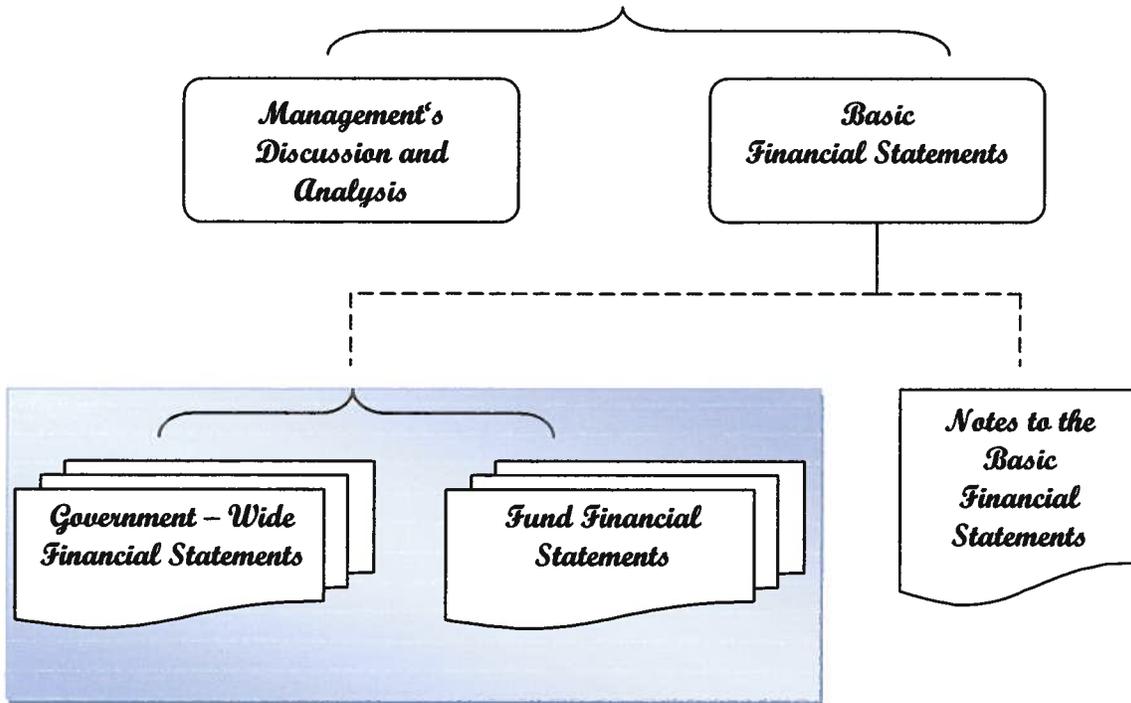
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Municipality of Ponce (the Municipality)**, we offer readers of the **Municipality's** basic financial statements this narrative overview and analysis of the financial activities of the **Municipality** as of and for the fiscal year ended June 30, 2007. All amounts, unless otherwise indicated, are expressed in millions of dollars.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the basic financial statements. The **Municipality's** annual financial report is comprised of the following components: 1) management's discussion and analysis, and 2) basic financial statements. The basic financial statements consist of a government-wide financial statements, fund financial statements and notes to the basic financial statements.

COMPONENTS OF THE ANNUAL FINANCIAL REPORT



GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are comprised of the statement of net assets and the statement of activities. These two statements are designed to provide readers with a broad overview of the **Municipality's** finances using the full accrual method of accounting, in a manner similar to a private-sector business. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

GOVERNMENT-WIDE FINANCIAL STATEMENTS, Continued

These two statements report the Municipality's net assets and changes in them. You can analyze the Municipality's net assets, as the difference between assets and liabilities, as one way to measure the Municipality's financial health, or financial position. Over time, *increases or decreases* in the Municipality's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, you will need to consider other 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 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 (business-type activities). The governmental activities of the Municipality include general government, public safety, public works, culture and recreation, health and welfare, urban development, legal services, education, training and employment, capital outlays special communities, capital outlays of projects, depreciation and principal plus interest on related long-term debt.

Other kinds of activities of the Municipality are the component units that include from separate legal entities in its report, the Port of Ponce (POP), Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D. ("Patronato Castillo Serrallés") and Corporación para el Desarrollo de la Zona Libre de Ponce, C. D. (CODEZOL). Although legally separate, these "components units" are important for the Municipality because are financially accountable for them and your significant importance for us.

The government-wide financial statements can be found on pages 14 to 16 of this report.

GOVERNMENTAL FUNDS

Government 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, the governmental funds financial statements use the modified accrual basis of accounting, which focuses on near-term inflow and outflow of spend able resources, as well as on balances of spend able resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

The Municipality maintains six individual governmental funds; General Fund , Health and Human Service Grants (HHS), Workforce Investment Act Grants (WIA), Debt Service, Housing Urban Development Grants (HUD) and Others Funds. The Others Funds include the Municipal Bank. Information is shown in the balance sheet and in the statement of revenues, expenditures and changes in fund balances.

Budgetary comparison statements for the general fund and debt service fund are required by law and are included in the basic financial statements on pages 23 and 24 of this report.

The governmental funds financial statements can be found on pages 17 to 21 of this report.

NOTES TO THE BASIC 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 25-49 of this report.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FINANCIAL HIGHLIGHTS

- **The Municipality's capital assets increased as a result of this year's operations. Capital assets as of June 30, 2007 were \$273.7 millions, as compared to \$258.4 millions in 2006.**
- **At June 30, 2007, the Municipality's governmental funds reported total ending fund balances of \$44.6 millions. Capital Projects fund balance had an ending balance of \$33.5 millions which represent 75% of total fund balance.**
- **For the year ended June 30, 2007, the Municipality had total revenues of \$161.8. millions. The general fund shown revenues by \$115.2 millions, which represent 71.2% of total revenues.**
- **The investment in capital assets, net of related of debt, for this year was \$167.6 millions. The Municipality uses these assets to provide services to citizens. Although the Municipality's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.**

Governmental Activities

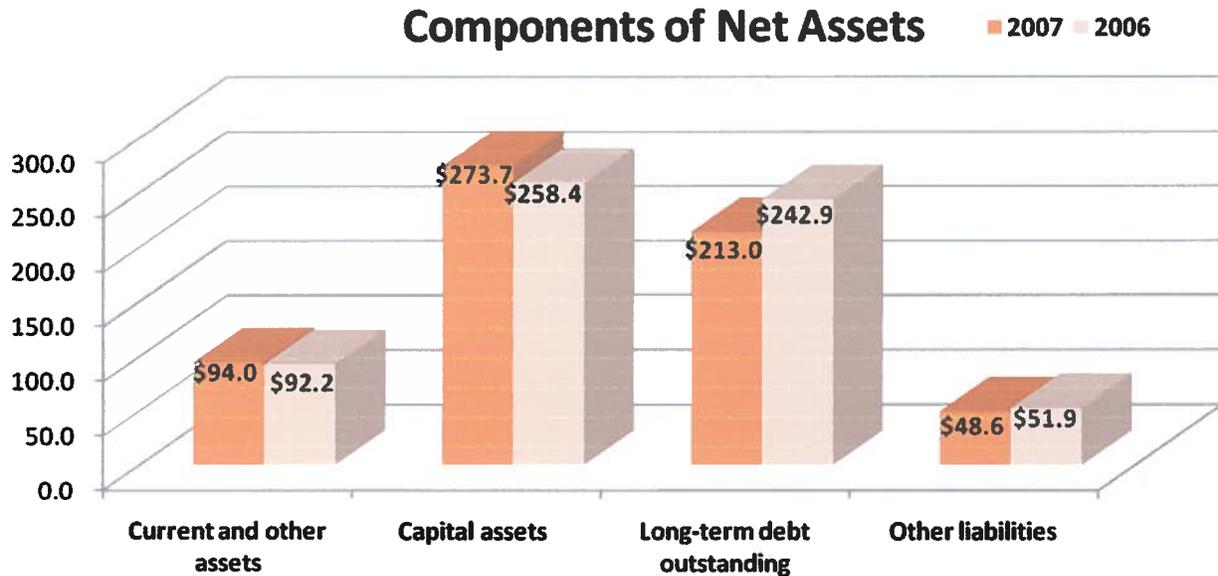
Net assets of the Municipality's governmental activities increased from \$55.84 millions in 2006 to \$106.12 millions in 2007. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased from approximately \$(122.72) millions at June 30, 2006 to approximately \$(119.54) millions at June 30, 2007.

**TABLE 1
NET ASSETS**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 94.02	\$ 92.24
Capital assets	<u>273.69</u>	<u>258.40</u>
Total assets	<u>367.71</u>	<u>350.64</u>
Long-term debt outstanding	213.00	242.89
Other liabilities	<u>48.59</u>	<u>51.91</u>
Total liabilities	<u>261.59</u>	<u>294.80</u>
Net assets:		
Invested in capital assets, net of related debt	167.65	126.38
Restricted for:		
Debt services	3.51	4.58
Capital projects	33.52	31.18
Federal programs	6.84	7.89
Special purposes	14.14	8.53
Unrestricted	<u>(119.54)</u>	<u>(122.72)</u>
Total net assets	<u>\$ 106.12</u>	<u>\$ 55.84</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007



Total revenues for the Municipality's governmental activities increased by \$18.06 millions and total expenses decreased by \$0.74 millions. The increase in revenues is mainly due to the implementation of the citizenship contribution named as "León Tax".

During the fiscal year the Municipality took the following major actions to improve its financial position:

- The Mayor of the Municipality made various committees to supervising the operations of all departments. The components of that committee were met, at lease, once per month. In those meetings the Mayor received various financial reports, such as, cash-flows statement, budget vs. actual, aging of accounts payable and a management report with the necessary explanations of the each account variance and the status of accounts payable and accrued expenses. The financial decisions of the Mayor were principally supported by those reports.
-
- During the fiscal year 2006-2007, the Municipality received various resources of State Government. such as Donativo Bonos de Mejoras Publicas" .
- In the budget regarding the administration, the Municipality received the estimated of expenses by each department, and the Finance and Budget Director and the Mayor performed the evaluation to those expenses and determine the needed of each one, looking for the reduction of those unnecessary expenses without affecting the daily operations.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

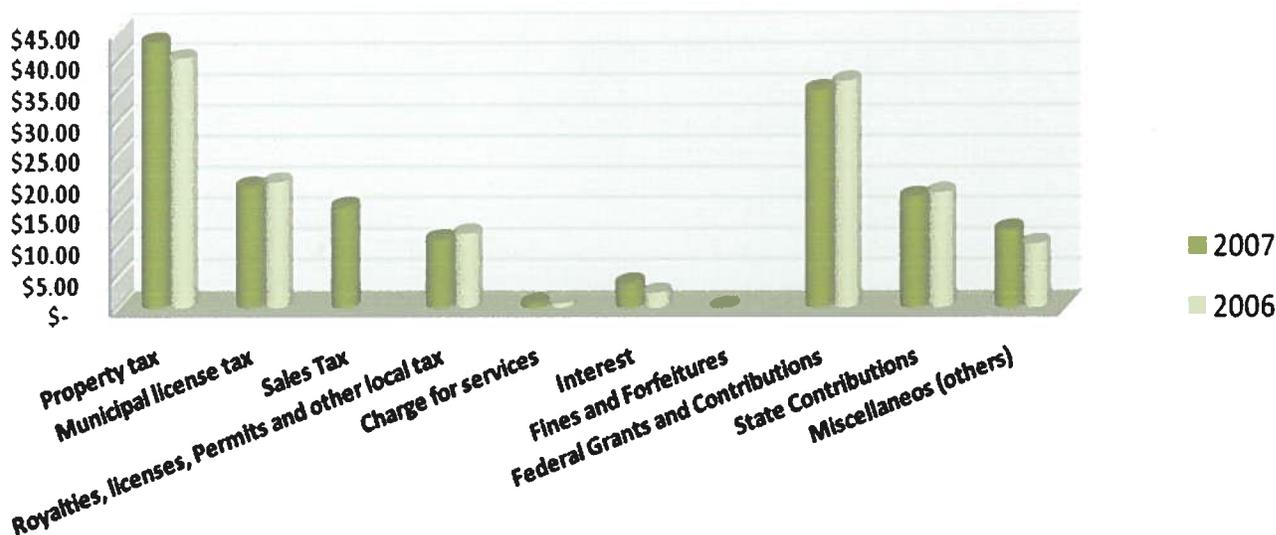
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Revenues in the statement of revenues, expenditures and changes in fund balances, pages 20 to 21, for the fiscal years ended June 30, 2007 were as follows:

**TABLE 2
GOVERNMENTAL REVENUES**

	<u>Total Revenues</u>	
	2007	2006
Property tax	\$ 43.18	\$ 40.46
Municipal license tax	19.78	20.45
Sales tax	16.43	-
Royalties, licenses, permits and other local tax	11.17	12.08
Charges for services	0.78	0.80
Fines and forfeitures	0.23	0.05
Interest	4.07	2.47
Federal Grants and Contributions	35.37	36.81
State Grants and Contributions	18.08	18.75
Miscellaneous	<u>12.67</u>	<u>10.39</u>
Total	<u>\$ 161.76</u>	<u>\$ 142.26</u>

2007 Governmental Revenues



COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

REPORTING THE MUNICIPALITY'S MOST SIGNIFICANT FUNDS

Government-wide financial statements

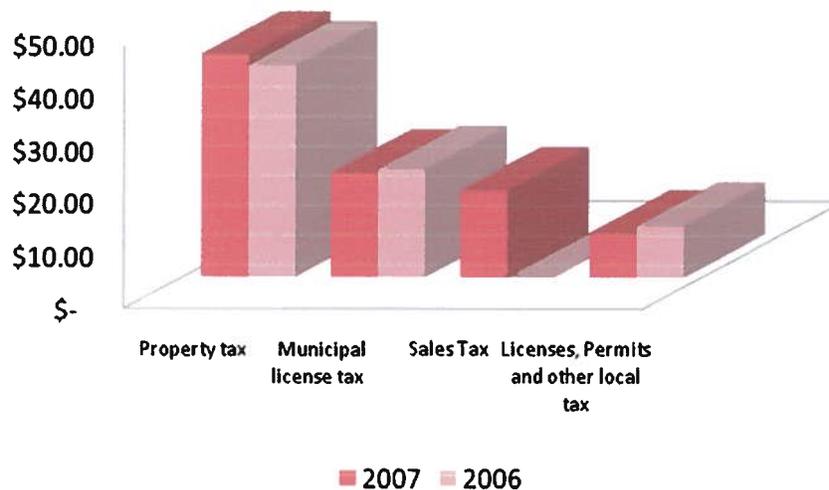
The statement of activities presented on page 16, provide detailed information about the most significant funds, of the Municipality.

The principal governmental revenues including, property tax, municipal license tax, sales tax and licenses and permits amounted to \$87.75 millions in 2007 and \$70.64 in 2006. During the fiscal year 2006-07, Port of Ponce transferred \$1.0 millions to the Municipality, as established by Resolution No. 176 (2006-07), and the debt service fund transferred to infrastructure fund approximately \$2.1 millions for public improvements.

The Municipality's governmental funds reported a change in net assets of \$50.63 millions in 2007 and \$39.21 millions in 2006. Table 3 and 4 shown the principal resources collected by governmental activities:

**TABLE 3
GOVERNMENTAL ACTIVITIES REVENUES**

	General Revenues by Major Sources	
	2007	2006
Property tax	\$ 43.18	\$ 40.41
Municipal license tax	19.78	20.45
Sales tax	16.43	-
Licenses, permits and other local tax	<u>8.36</u>	<u>9.78</u>
Total	<u>\$ 87.75</u>	<u>\$ 70.64</u>

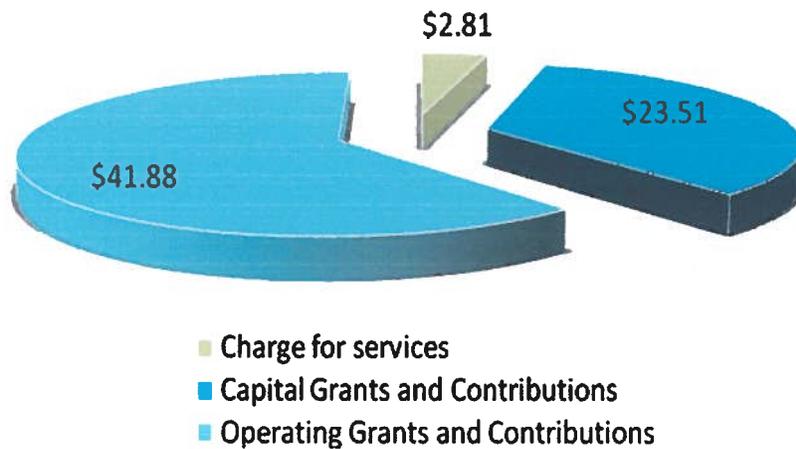


COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**TABLE 4
GOVERNMENTAL ACTIVITIES**

	Program Revenues by Major Sources	
	2007	2006
Charges for service	\$ 2.81	\$ 2.30
Operating grants and contributions	41.88	40.11
Capital grants and contributions	<u>23.51</u>	<u>26.36</u>
Total	<u>\$ 68.20</u>	<u>\$ 68.77</u>



The cost of all governmental activities for the year ended June 30, 2007 was \$147.50 millions as compared to \$148.24 millions in prior year. Table 5 below, presents the cost of each of the Municipality's largest program expenses for the fiscal year ended June 30, 2007.

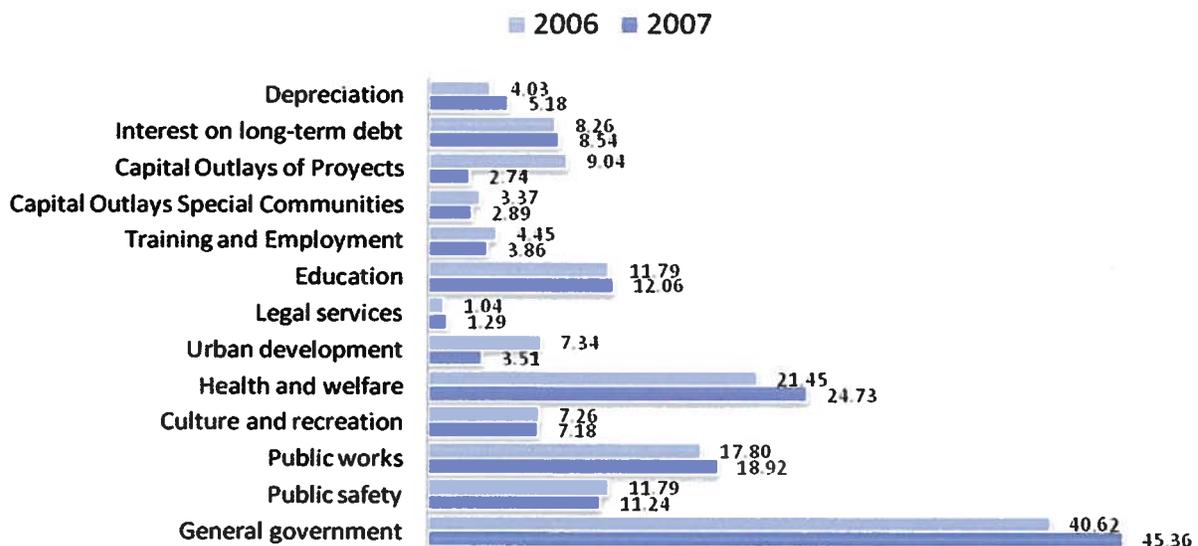
COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**TABLE 5
GOVERNMENTAL ACTIVITIES**

	<u>Total Expenses</u>	
	2007	2006
General government		
Public safety	\$ 45.36	\$ 40.62
Public work	11.24	11.79
Culture and recreation	18.92	17.80
Health and welfare	7.18	7.26
Urban development	24.73	21.45
Legal services	3.51	7.34
Education	1.29	1.04
Training and employment	12.06	11.79
Capital outlays - special communities	3.86	4.45
Capital outlays - projects	2.89	3.37
Interest on long-term debt	2.74	9.04
Depreciation	8.54	8.26
	<u>5.18</u>	<u>4.03</u>
Total	<u>\$ 147.50</u>	<u>\$ 148.24</u>

**Governmental Activities
(In Millions)**



COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Fund financial statements

Governmental funds, as presented in the balance sheet on pages 17 and 18 reported a total fund balance of \$44.6 millions in 2007, and \$39.6 millions in 2006.

Also, there are others explanations that have been identified and should be read in conjunction.

- **The Municipality** reduced its deficit of the unreserved fund balance as of June 30, 2007 by approximately \$5 millions as compared to June 30, 2006.
- During the fiscal year, **the Municipality** maintained a revenue trend in property tax due to the effort of the **Municipality's** property tax office.
- State contributions of approximately \$18.1 millions, principally include \$6.83 millions of the legal claim of Ponce en Marcha, and \$8.11 of in lieu of tax provided by PR Electric Power Authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2007, **the Municipality** had \$330.45 millions invested in a broad range of capital assets, including buildings, parks, roads, bridges, and equipment, see Table 6 below. This amount represents a net increase of \$19.86 millions.

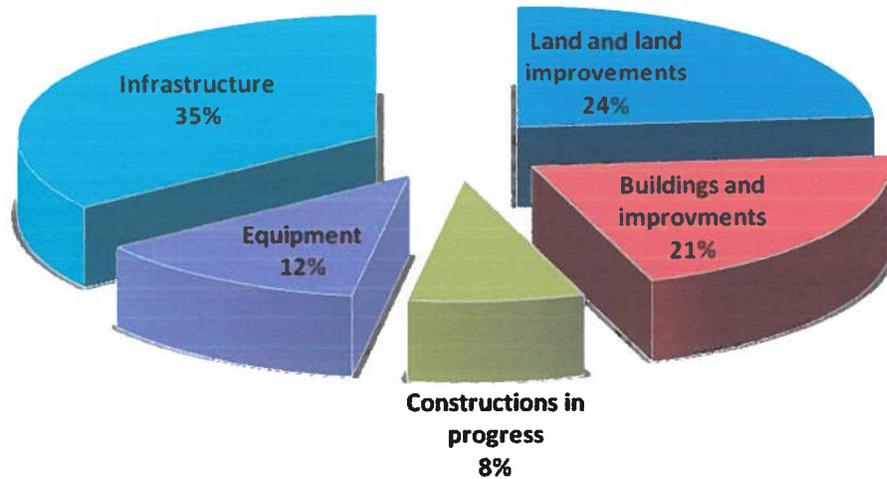
TABLE 6

**CAPITAL ASSETS
(In thousands)**

	<u>Governmental Activities</u>	
	2007	2006
Land and land improvements	\$ 78.47	\$ 50.09
Buildings and improvements	68.82	68.23
Construction in progress	26.33	46.17
Equipment	41.53	40.66
Infrastructure	<u>115.30</u>	<u>105.44</u>
Total	<u>\$ 330.45</u>	<u>\$ 310.59</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



Buildings and improvements increased by approximately \$600,000 and land and land improvements increased by \$28.38 millions, mainly due to the fact that the construction to the various piers in the Port of Ponce was substantially completed in this fiscal year. Detailed information about the Municipality's capital assets is presented in Note 11 to the basic financial statements.

Debt

At year-end, the Municipality had \$212.17 millions in bonds, notes and other long-term debts outstanding as compared to \$243.70 millions in prior year, decreased by \$31.53 millions, as shown in Table 7 below.

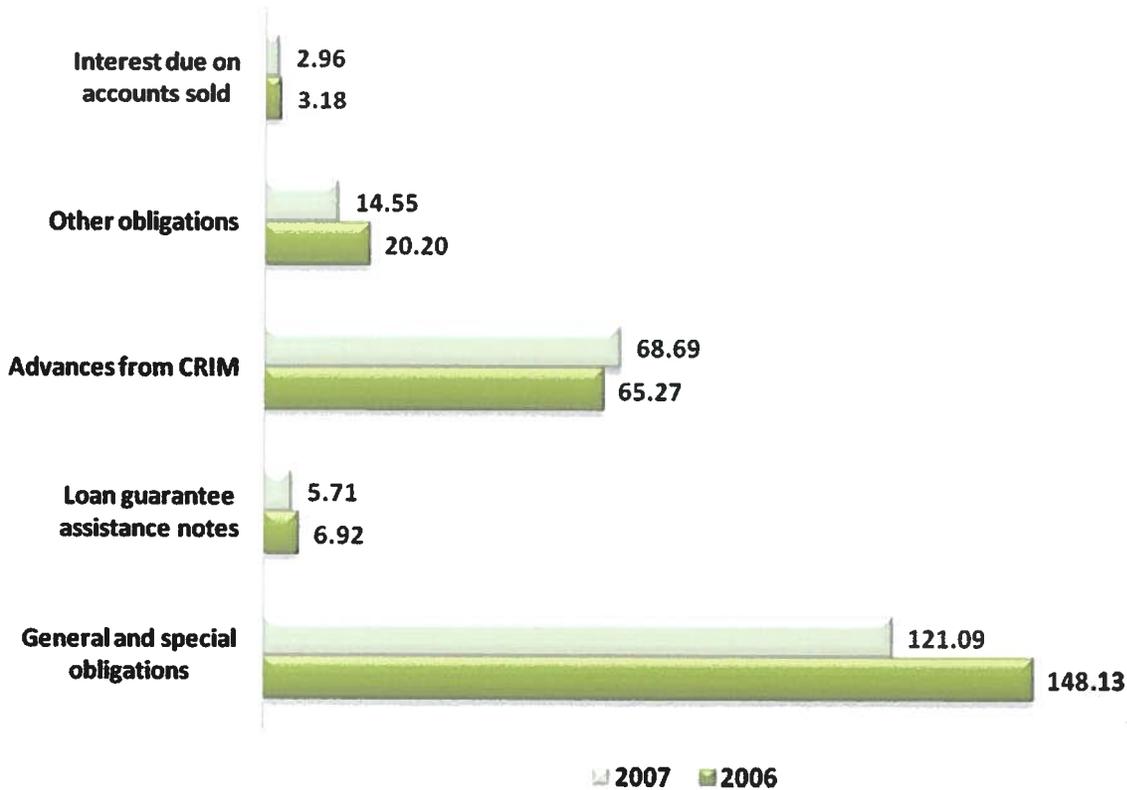
**TABLE 7
OUTSTANDING DEBT
(In thousands)**

	<u>Governmental Activities</u>	
	2007	2006
General and special obligation	\$ 121.09	\$ 148.13
Loan guarantee assistance notes	5.71	6.92
Advances from CRIM	67.86	65.27
Other obligations	14.55	20.20
Interest due for accounts sold	<u>2.96</u>	<u>3.18</u>
Total	<u>\$ 212.17</u>	<u>\$ 243.70</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

2007 Outstanding Debt



The Municipality is 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. Other obligations include compensated absences, LIMS refinancing debt, claims and judgments. Detailed information about the Municipality's long-term liabilities is presented in Note 16 to the basic financial statements.

GENERAL FUND BUDGETARY AND ECONOMIC FACTORS HIGHLIGHTS

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2006-2007 budget.

During the fiscal year 2006-2007, the original budget was amended to increase revenues by \$2.13 millions. The increase in appropriations was to be funded from additional state contributions obtained from Electric Power Authority and \$1.75 from the sales tax.

Actual revenues included in the general fund increased by \$3.69 as compared to budgeted revenues. This increase was principally in sales tax and property tax. The management decided to amend the next fiscal year's budget based in this excess of revenues

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The statement of revenues and expenditures - general fund - budget and actual in page 23 presented a final budgeted excess of revenues of approximately \$4.38 millions.

The original and final budget (General Fund and Debt Service Fund) 2005-06 are presented in pages 23 and 24 providing detailed information to legal compliance.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to show the accountability for the money it receive. If you have questions about this report, separately issued components unit's financial statements, or need additional financial information, contact us at Municipality of Ponce, PO Box 331709, Ponce, Puerto Rico 00733-1709.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS	Component Units			
	Governmental Activities	Port of Ponce	CODEZOL	Patronato
Cash (Notes 1 and 4)	\$ 19,569,153	\$ 1,914,433	\$ 616,602	\$ 311,473
Accounts receivable, net (Note 1):				
Municipal license tax (Note 9)	172,418			
Sales tax	1,614,492			
Loans	383,645			
Other (Note 9)	635,367	129,993	90,787	839
Interest receivable	45,629			
Due from local government (Note 10)	4,800,571			
Due from federal government (Note 10)	4,121,245			
Due from primary government		203,869		
Other assets		52,193	24,870	62,697
Restricted assets:				
Cash and cash equivalents (Notes 1 and 4)39	41,590,518		100,000	
Cash and cash equivalents with fiscal agent (Notes 1 and 4)	21,090,294			
Real estate projects with fiscal agent (Notes 1 and 4)				
Real estate projects under construction (Note 1)				
Capital assets (Notes 1 and 11):				
Non-depreciable	73,799,718	2,692,555	52,464	232,917
Depreciable, net of accumulated depreciation	199,887,565			211,988
Total assets	367,710,615	4,993,043	884,723	819,914

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2007**

	Governmental Activities	Component Units		
		Port of Ponce	CODEZOL	Patronato
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued liabilities (Note 12)	\$ 20,521,898	\$ 539,918	\$ 48,176	\$ 167,274
Due to other agencies (Note 13)	8,777,525			
Notes payable				29,681
Deferred revenues (Note 15):				
Municipal license tax	16,459,660			
Federal government	795,694			
Other	9,838			
Accrued interest	2,855,490			
Non current liabilities (Note 16):				
Due within one year	12,207,987			
Due after one year	<u>199,966,783</u>			
Total liabilities	<u>261,594,875</u>	<u>539,918</u>	<u>48,176</u>	<u>196,955</u>
NET ASSETS:				
Investment in capital assets, net of related debt	167,644,451			
Restricted for:				
Federal grants	6,841,557			
Debt service	3,506,838			
Special purposes	14,143,496			107,893
Capital project	33,518,024		52,464	
Unrestricted (deficit)	<u>(119,538,626)</u>	<u>4,453,125</u>	<u>784,083</u>	<u>515,066</u>
Total net assets	<u>\$ 106,115,740</u>	<u>\$ 4,453,125</u>	<u>\$ 836,547</u>	<u>\$ 622,959</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues			Primary Governmental Activities	Port of Ponce	Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			CODEZOL	Patronato
PRIMARY GOVERNMENT								
Governmental activities:								
General government	\$ 45,359,209	\$ 7,233,336	\$ (38,125,873)					
Public safety	11,244,021	176,429	(11,067,592)					
Public works	18,917,495	2,812,705	7,404,095					
Culture and recreation	7,181,599		(7,181,599)					
Health and welfare	24,725,876	13,533,172	(11,192,704)					
Urban development	3,511,861	17,395,557	13,883,696					
Legal services	1,288,482		(1,288,482)					
Education	12,064,727		(12,064,727)					
Training and employment	3,863,414	3,546,446	(316,968)					
Capital outlays:								
Special communities	2,885,817		(2,885,817)					
Projects	2,738,107		(2,738,107)					
Depreciation	5,183,867		(5,183,867)					
Interest	8,539,042		(8,539,042)					
TOTAL	\$ 147,503,517	\$ 2,812,705	\$ 41,884,940	\$ 23,508,885				
COMPONENT UNITS:								
Port of Ponce	\$ 2,584,233	\$ 1,434,925	\$ 277,654		\$ (871,654)	\$ (130,238)	\$ (11,442)	
CODEZOL	501,205	370,967						
Patronato	1,292,299	457,946	822,911					
TOTAL	\$ 4,377,737	\$ 2,263,838	\$ 822,911	\$ 277,654	\$ (871,654)	\$ (130,238)	\$ (11,442)	
General revenues:								
Property tax (Note 5)			42,458,837					
Municipal license tax (Note 6)			19,783,776					
Sales tax (Note 7)			16,433,589					
Licenses, permits and other local tax			8,356,460					
Grants and contributions not restricted to specific programs			719,589					
Interest			4,069,620		54,573	35,386	8,669	
Transfer from Port of Ponce			1,000,000					
Transfer to Port of Las Americas			(3,903,811)		230,347		23,928	
Other			1,008,312					
Extinguishment of debt (Note 16)			40,000,000					
Total general revenues			129,926,374		284,920	35,386	32,597	
Change in net assets			50,629,387		(586,734)	(94,852)	21,155	
Net assets, as previously reported			55,841,621		5,039,859	878,935	601,804	
Prior period adjustments (Note 22)			(355,268)					
Net assets, as restated			55,486,353		5,039,859	878,935	601,804	
Net assets, ending			106,115,740		4,453,125	784,083	622,959	

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	HHS Grants	Workforce Investment Act Grants	Debt Service	HUD Grants	Others	Total Governmental Funds
ASSETS							
Cash (Notes 1 and 4)	\$ 19,569,153						\$ 19,569,153
Accounts receivable, net (Notes 1 and 9):							
Municipal license tax	172,418						172,418
Sales tax	1,614,492						1,614,492
Other	529,623			\$	105,745	\$ 383,645	635,368
Loans receivable				\$ 45,629			383,645
Interest receivable				\$		158	45,629
Due from local government (Note 10)	2,907,219	\$ 150,395	\$ 1,717,056	176,138	3,535,029	\$ 435,821	4,800,571
Due from federal government (Note 10)		288,535			1,049,000		4,121,245
Due from other funds (Note 8)	396,258						1,733,793
Restricted cash:							
Cash and cash equivalents (Notes 1 and 4)	37,069,440	69,528	374,056		3,663,391	414,103	41,590,518
Cash and cash equivalents with fiscal agent (Notes 1 and 4)	<u>9,512,648</u>			<u>10,645,561</u>		<u>932,085</u>	<u>21,090,294</u>
TOTAL	<u>\$ 71,771,251</u>	<u>\$ 508,458</u>	<u>\$ 2,091,112</u>	<u>\$ 10,867,328</u>	<u>\$ 8,353,165</u>	<u>\$ 2,165,812</u>	<u>\$ 95,757,126</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
 JUNE 30, 2007

	General	HHS Grants	Workforce Investment Act Grants	Debt Service	HUD Grants	Others	Total Governmental Funds
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts payable and accrued liabilities (Note 12)	\$ 13,732,643	\$ 438,164	\$ 296,248	\$	\$ 1,197,608	\$ 352,236	\$ 16,016,899
Due to other agencies (Note 13)	7,755,332				1,022,193		8,777,525
Due to other funds (Note 8)	922,996	35,466			730,846	44,485	1,733,793
General obligations:							
Bonds				\$ 4,505,000			4,505,000
Accrued interest				2,855,490			2,855,490
Deferred revenues (Note 15):							
Municipal license tax	16,459,660						16,459,660
Others	9,838						9,838
Federal government		50			390,603	405,042	795,695
Total liabilities	38,880,469	473,680	296,248	7,360,490	3,341,250	801,763	51,153,900
FUND BALANCE:							
Reserved for:							
Encumbrances (Note 2)	6,275,408		671,832			777,537	7,724,777
Federal grants		34,778	1,123,032		5,011,915		6,169,725
Debt service				3,506,838			3,506,838
Special purposes	13,365,959						13,365,959
Capital projects	33,518,024						33,518,024
Unreserved fund balance	(20,268,609)					586,512	(19,682,097)
Total fund balance	32,890,782	34,778	1,794,864	3,506,838	5,011,915	1,364,049	44,603,226
TOTAL	\$ 71,771,251	\$ 508,458	\$ 2,091,112	\$ 10,867,328	\$ 8,353,165	\$ 2,165,812	\$ 95,757,126

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF
NET ASSETS
JUNE 30, 2007**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS **\$ 44,603,226**

Amounts reported for governmental activities in the statement of net assets are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 273,687,284

- Some liabilities including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 3) (212,174,770)

NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 106,115,740**

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>HHS Grants</u>	<u>Workforce Investment Act Grants</u>	<u>Debt Service</u>	<u>HUD Grants</u>	<u>Others</u>	<u>Total Governmental Funds</u>
REVENUES:							
Property tax (Note 5)	\$ 32,760,010			\$ 10,415,860			\$ 43,175,870
Municipal license tax (Note 6)	19,783,776						19,783,776
Sales tax (Note 7)	16,433,589						16,433,589
Royalties and others	2,812,705						2,812,705
Licenses, permits and other local tax	8,356,460						8,356,460
Charges for services and rents	776,836						776,836
Fines and forfeitures	231,478						231,478
Interest	3,572,266			364,747	\$ 132,606		4,069,619
Intergovernmental revenues (Note 14):							
Federal grants and contributions	18,075,411	\$ 13,614,332	\$ 3,546,446		16,395,307	\$ 1,815,107	35,371,192
State contributions	12,424,657				239,002	3,152	18,075,411
Other	115,227,188	13,614,332	3,546,446	10,780,607	16,766,915	1,818,259	161,753,747
Total revenues							
		\$ 13,614,332	\$ 3,546,446	\$ 10,780,607	\$ 16,395,307	\$ 1,815,107	\$ 35,371,192
		18,075,411			239,002	3,152	18,075,411
		115,227,188	3,546,446	10,780,607	16,766,915	1,818,259	161,753,747
EXPENDITURES:							
Current:							
General government	47,812,827						47,812,827
Public safety	11,067,592					176,429	11,244,021
Public works	18,917,495						18,917,495
Culture and recreation	7,181,599						7,181,599
Health and welfare	9,701,634	1,966,305			12,139,317	918,620	24,725,876
Urban development	1,288,482				3,511,392	469	3,511,861
Legal services							1,288,482
Education		12,064,727					12,064,727
Training and employment			3,863,414				3,863,414
Capital outlays:							
Special communities	2,885,817						2,885,817
Projects	23,206,240						23,206,240
Debt service:							
Principal	640,000			4,505,000	1,210,000		6,355,000
Interest	2,963,297			5,217,426	358,319		8,539,042
Total expenditures	125,664,983	14,031,032	3,863,414	9,722,426	17,219,028	1,095,518	171,596,401
Excess (deficiency) of revenues over expenditures	(10,437,795)	(416,700)	(316,968)	1,058,181	(452,113)	722,741	(9,842,654)

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General	HHS Grants	Workforce Investment Act Grants	Debt Service	HUD Grants	Others	Total Governmental Funds
OTHER FINANCING SOURCES (USES):							
Loan proceeds	18,107,000						18,107,000
Transfer from Port of Ponce	1,000,000						1,000,000
Transfer to Port of Las Americas	(3,903,811)						(3,903,811)
Transfers in	20,988,559					402,109	21,390,668
Transfers out	(18,859,794)			(2,133,452)	(397,422)		(21,390,668)
Total other financing sources (uses)	17,331,954			(2,133,452)	(397,422)	402,109	15,203,189
Excess (deficiency) of revenues over expenditures and other financing sources	6,894,159	(416,700)	(316,968)	(1,075,271)	(849,535)	1,124,850	5,360,535
FUND BALANCE, July 1, 2006, As previously reported	26,917,382	451,478	1,440,000	4,582,109	6,002,836	204,154	39,597,959
PRIOR PERIOD ADJUSTMENTS (Note 22)	(920,759)		671,832		(141,386)	35,045	(355,268)
FUND BALANCE, July 1, 2006, As restated	25,996,623	451,478	2,111,832	4,582,109	5,861,450	239,199	39,242,691
FUND BALANCE, June 30, 2007	\$ 32,890,782	\$ 34,778	\$ 1,794,864	\$ 3,506,838	\$ 5,011,915	\$ 1,364,049	\$ 44,603,226

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See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - 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 FISCAL YEAR ENDED JUNE 30, 2007**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 5,360,535

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures. However, in the statement of activities and change in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 42,501,764
- Loss on disposition of capital assets reported in the statement of activities, but do not require including as current expenditures. (75,352)
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the source of current financial resources. (5,183,867)
- Some Municipality's long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds as expenditures:
 - Increase in property tax advances (3,420,936)
 - Net decrease in legal claims and judgments 2,027,269
 - Net decrease in compensated absences 3,273,605
 - Decrease in LIMS refinancing debt, and interest due for accounts sold 508,402
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduce the long-term obligations in the statement of activities. 6,355,000
- Property taxes revenues included in the statements of activities and therefore are not reported in the funds statements as available and measurable criteria (717,033)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 50,629,387

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 30,937,778	\$ 30,937,779	\$ 32,760,010	\$ 1,822,231
Municipal license tax	21,870,478	21,870,478	19,888,265	(1,982,213)
Sales tax	8,000,000	9,750,000	16,433,589	6,683,589
Royalties and other	2,000,000	2,000,000	2,621,926	621,926
Licenses, permits and other				
local taxes	10,151,793	10,151,793	6,766,707	(3,385,086)
Charges for services and rents	1,187,074	1,187,074	779,273	(407,801)
Fines and forfeitures	191,785	191,785	231,478	39,693
Interest	1,591,000	1,591,000	2,635,752	1,044,752
Intergovernmental revenues -				
federal grant and contribution	177,919	177,919	204,224	26,305
State contributions	11,459,184	11,843,620	10,842,070	(1,001,550)
Other revenues	4,538,270	4,538,270	4,764,142	225,872
Total revenues	92,105,281	94,239,718	97,927,436	3,687,718
EXPENDITURES:				
General government	41,529,617	42,832,774	43,995,043	1,162,269
Public safety	11,883,794	12,428,691	18,917,475	6,488,784
Public works	19,291,708	19,291,708	11,010,881	(8,280,827)
Culture and recreation	6,830,665	6,875,181	6,819,325	(55,856)
Health and welfare	9,701,634	9,701,634	9,701,634	-
Legal services	1,053,060	1,294,927	1,288,482	(6,445)
Debt service:				
Principal	640,000	640,000	640,000	-
Interest	1,174,803	1,174,803	1,174,803	-
Total expenditures	92,105,281	94,239,718	93,547,643	(692,075)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 4,379,793	\$ 4,379,793

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**STATEMENT OF REVENUES AND EXPENDITURES - DEBT SERVICE FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 9,144,499	\$ 9,144,499	\$ 10,415,860	\$ 1,271,361
Interest	-	-	364,747	364,747
Total revenues	<u>9,144,499</u>	<u>9,144,499</u>	<u>10,780,607</u>	<u>1,636,108</u>
EXPENDITURES:				
Debt service:				
Principal	4,289,531	4,289,531	5,217,426	927,895
Interest	<u>4,854,968</u>	<u>4,854,968</u>	<u>4,505,000</u>	<u>(349,968)</u>
Total expenditures	<u>9,144,499</u>	<u>9,144,499</u>	<u>9,722,426</u>	<u>577,927</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,058,181</u>	<u>\$ 1,058,181</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The 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, community developments, education, and other miscellaneous services.

Summary of significant accounting policies

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34: "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*", (GASB No. 34). This statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2001. In addition, to this Statement, GASB Statement No. 37: "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*", and GASB Statement No. 38: "*Certain Financial Statement Note Disclosures*" have been adopted and are reflected in these financial statements.

Reporting entity

These basic financial statements present the Municipality and its component units. As defined by GASB Statement No. 14, as amended by GASB Statement No. 39, component units are entities that are legally separate organizations that are included in the Municipality's reporting entity because of the significance of their operating of financial relationship with the Municipality by the nature and significance of the relationship between the entity and a primary government.

The following discretely presented component units are in the basic financial statements:

- **Port of Ponce ("POP")** was formed as a result of an 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.
- **Corporación para el Desarrollo Económico de Proyectos Comerciales y de Vivienda de Ponce, C. D. ("CODEPCOVI")** was incorporated on September 23, 1985, as a public nonprofit corporation to promote the economic development of the City of Ponce, originally under the name of Ponce Economic Development Corporation. CODEPCOVI's principal activity consists of granting loans to small businesses. CODEPCOVI's activities are principally financed through contributions from the Municipality using federal assistance and interest charges to borrowers. However, CODEPCOVI closed its operations effective June 30, 2006.
- **Corporación para el Desarrollo de la Zona Libre de Ponce, C. D. ("CODEZOL")** was incorporated on September 25, 1997, as special municipal development nonprofit corporation for develop international commerce principally between Europe, Caribbean zone, North, South and Central America through Foreign Trade Zone (License FTZ No. 163). Municipal Legislature authorized the creation of a special corporation on Resolution No. 15. (Series 1992-93)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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 Serralles 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 receive a monthly administration fee for operation of museum. Municipal Legislature authorized the creation of a special corporation on Resolution No. 179. (Series 2001-02).

Separate financial statements of the individual component units can be obtained from their respective administrative offices.

Port of Ponce
Road 10 final
Playa de Ponce
Ponce, Puerto Rico 00731

Corporación para el Desarrollo de la Zona Libre de Ponce, C. D. (CODEZOL)
Avenida Santiago de los Caballeros No. 1
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

Government-wide and fund financial statements

Government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is financially accountable. The Municipality’s activities are considered governmental type. The statement of net assets presents the reporting entities’ nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- 1) Invested in capital assets, net of related debt – these consist of capital assets, less accumulated depreciation and reduced by any outstanding debt that are attributed to the acquisition, construction or improvement of those assets.
- 2) Restricted net assets – these result when constraints placed on net asset use are either externally imposed by grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- 3) Unrestricted net assets – these consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Internally dedicated resources are reported as general revenues rather than as program revenues. Taxes and other items not properly included among program revenue are reported instead as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column as others.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers most revenue to be available if collected within 90 days after of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Modifications to the accrual basis of accounting are shown in pages 19 and 22.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

The Municipality reports the following major governmental funds:

General fund - This is the operating fund of the Municipality. It is used to account for all financial transactions, except those required to be accounted for in another fund.

HUD Grant fund - This fund accounts for revenue sources provided by US Housing Urban Development Department for the development of viable urban communities, decent housing, suitable living environment, 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.

Workforce Investment Act Grant fund ("WIA") - This fund accounts for revenue sources provided by "Consejo Desarrollo Ocupacional y Recursos Humanos" (pass-through agency of 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 U. S. companies find skilled workers.

Health and Human Services Grant 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.

Debt service fund - This fund accounts for the accumulation of resources predominantly for, and the payment of, principal and interest on long-term general obligation debt of governmental funds.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash, cash equivalents, and cash with fiscal agent

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department ("PRTD") or in instruments of the Government Development Bank for Puerto Rico ("GDB"). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash with fiscal agent in the general fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

Cash and cash equivalents of the component units are maintained in separate bank accounts, from those of the primary government, in their own names.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

Restricted assets

Funds set aside by the governmental funds for the payment and guarantee of notes and interest payable, bonds and other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law.

Receivables

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables are resources provided by governmental entities that are deemed fully collectible. The accounts receivable from nongovernmental customers are net of estimated uncollectible amounts.

Interfund receivables and payables

The Municipality has the following types of transactions among funds:

Operating transfers – Operating transfers are legally required transfers that are reported when incurred as operations transfer-in by the recipient fund and as operating transfer-out by the disbursing fund. The operating transfers are: (1) indirect cost reimbursement paid by federal grants to general fund and (2) debt service's interest revenue provided for operational activities of the general fund as established by state laws, principally.

Intra-entity transactions - Transfers between the funds of the primary government are reported as interfund transfer with receivables and payables presented as amounts due to and due from other funds.

Inventories

Generally, inventories are valued at cost and predominantly on the first-in, first-out method. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Capital assets

Capital assets, which include land, land improvements, construction in progress, buildings, building improvements, machinery, equipment, and infrastructure (which is normally real property and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental activities and component units columns in the statement of net assets.

Capital assets purchased or acquired are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at fair market value at the time of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance that do not add value to the assets or materially extend assets lives, are expensed as incurred. The Municipality defines capital assets as assets, which have an initial, individual cost of \$25 or more at the date of acquisition. Such amount has been determined by the Basic Standards of the Municipalities of Puerto Rico, which is the guide that regulates the Municipalities. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Major outlays for capital assets and improvements are capitalized as projects are constructed in governmental-wide financial statements.

The Municipality reviews the carrying value of its long-lived capital assets for possible impairment whenever events or changes in circumstances indicated that the carrying amount of the assets might not be recoverable. Any long-lived capital assets held for disposal are reported at the lower of their carrying amounts or fair value (donated assets). The Municipality has not identified any significant impairment of its long-lived assets as of June 30, 2007.

Depreciation expense is recorded in the governmental-wide financial statements, as well as the component units' financial statements. Depreciation in capital assets is calculated on the straight-line method over the following assets' estimated useful life:

	Useful Life
Buildings and building improvements	20-50 years
Land improvements	20-30 years
Machinery and equipment	5-20 years
Infrastructure	20-50 years

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

Works of art and historical treasures

At June 30, 2007, the Municipality has the following work of art, historical treasures, and similar assets:

- Centro Ceremonial Indígena de Tibes (Period 1200 AC to 1493 AC) - collections have skeletons, charms, "petroglifos" and ceremonial park of Taino Indian culture.
- Museo Antiguo Parque de Bombas (1882) - collections have pictures, fire equipments, fireman car and embellishing.
- Museo Castillo Serrallés (1930-1934) - collections have puertorrican and international decorative arts, Serrallés' Family objects, documents and machinery of Mercedita Sugar Plantation.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- Panteón Nacional Ramón Baldorioty de Castro (1847-2005) - collections show funeral arts of Century XIX, 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 1200 AG to end Century XIX) - collections have documents, pictures, and works of art that show the evolution of City.
- Museo Pancho Coimbre (Beginning Century XX) - collections have memories of baseball player Francisco “Pancho” Coimbre, sport equipment, pictures and gallery of “immortals” of Ponce’s Sport.
- City Hall (Century XVIII to XXI) - collections have Ponce’s former mayors paintings in oil colors, work arts of Miguel Pou, Azaustre, Manuel Sierra and Julio Ojeda, busts of Juan Ponce de León and Eugenio María de Hostos.
- Public Art (1923-2004) - collections have sculptures installed in Public Parks, avenues and public buildings.

These collections constitute culture patrimony of the Municipality acquired by purchase and/or donations. The Municipality take the option not capitalized your work of arts and historical treasures by the patrimony value for future generations.

Deferred revenues

Deferred revenue at the governmental fund level arises when potential revenue does not meet neither the “measurable” or the “available” criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Municipality has a legal claim to them, as when grant moneys are received prior incurring the qualifying expenditures.

Reservations of fund balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use. The Municipality has the following reservations of fund balance:

Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

Federal grants - Represent the reservations of amounts available for specific use under federal grant programs.

Special purpose - Represent the reservations of amounts available for specific purpose provided by governmental entities and others.

Debt service - Represents net assets available to finance future debt service payments.

Capital project - Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (“the CRIM”) for the year ended June 30, 2007 amounted to approximately \$2.28 millions. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$2.09 millions for workers compensation insurance covering all municipal employees. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Long-term debt

The liabilities reported in the governmental-wide financial statements include the Municipality's public improvements bonds, general and special obligations bonds, general and special refunding obligations bonds, rent bond, loan guarantee assistance notes, and long-term liabilities including: property tax advances, LIMS refinancing debt, interest due for accounts sold, legal claims and compensated absences. Long-term obligations financed by components units are recorded as liabilities in the discretely presented component unit's column.

Compensated absences

The vacation policy of the Municipality generally provides for the accumulation of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid leave at the current rate, if the employee has at least 10 years of service with the Municipality.

On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid on or before March 31. Excess of vacations can be paid after July 1 of every fiscal year.

Post employment benefits

Pursuant to the following Acts; no. 207 of August 13, 1995, no. 40 of June 13, 2001 and no. 157 of June 27, 2003, the Municipality is required to cover annually the 3% increase (cost of living allowance) in the retirement plan of its retirees employees. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Municipality. For the fiscal year ended June 30, 2007, post employment benefits for 554 retirees amounted to \$359,308. These benefits are recorded as expenditures when paid in the general fund.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications to component units' amounts

Certain reclassifications have been made to the amounts presented in the component units' financial statements to conform them to the presentation used in the Municipality's basic financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Future adoption of accounting pronouncements

The Governmental Accounting Standards Board has issued the following statement that the Municipality or its component units have not yet adopted:

Statement Number	Statement Name	Adoption Required in Fiscal Year
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2007-08
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2008-09
50	Pension Disclosures-an amendment of GASB no. 25 and no. 27	2007-08
51	Accounting and Reporting for Intangible Assets	2009-10

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

2. 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 GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of 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 and the debt service funds.

Revenues and Expenditures - Budget and actual (Budgetary basis), accordingly, include the operations of the general fund and the payment of general obligations bonds in debt service fund. The amounts approved under other governmental funds were excluded since they are received and expended over a period of time, which generally exceeds the current year.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders, contracts) are considered expenditures when commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations within GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. At the end of the year, the unencumbered balance of any appropriations of the general fund will lapse immediately. Appropriations, other than in general fund, 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. As of June 30, 2007, this commitment amounted to approximately \$6,275,408.

The annual budget as presented in the accompanying statements of revenues and expenditures - budget and actual for general and debt service funds (budgetary basis) is the budget ordinance at June 30, 2007 representing the original budget and the amended budget.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, Continued

Budget /GAAP reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2007 is presented below for the general fund:

	General Fund
Excess of revenues over expenditures - budget basis	<u>\$ 4,379,793</u>
Entity differences:	
Non-budgeted revenues	17,299,752
Non-budgeted expenses	(33,384,010)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(117,480)
Current year encumbrances recorded as expenditures for budget purposes	<u>1,384,150</u>
Basis of accounting differences - net change	<u>(14,817,588)</u>
Deficiency of revenues over expenditures - GAAP basis	<u>\$ (10,437,795)</u>

Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budget indicating: (1) interest, amortization and retirement public debt, (2) statutory obligations, (3) judicial claims payments, (4) any amount to cover prior years deficit, (5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtain of additional special property tax (municipal) collections. The Municipality's management shows budgetary financial statements in general and debt service funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for the debt service fund.

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$210 millions differences are as follows:

Reconciliation liabilities recorded in basic financial statements vs. fund financial statements.

General and special obligations	\$ 121,092,000
Property tax advances	67,861,009
Loan guarantee notes	5,705,000
Claims and judgments	230,000
Compensated absences	12,323,408
LIMS refinancing debts	2,002,830
Interest due for accounts sold - CRIM	<u>2,960,523</u>
	<u>\$ 212,174,770</u>

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, Continued

Reconciliation of invested in capital assets, net of related debt:

Total capital assets, net of accumulated depreciation	<u>\$ 273,687,283</u>
Deduct:	
Bonds payable:	
Ordinance (Series 1996-97)	4,360,000
Ordinance (Series 1998-99)	1,605,000
Ordinance (Series 2000-01)	27,544,326
Ordinance (Series 2003-04)	45,728,506
Ordinance (Series 2004-05)	10,535,000
Ordinance (Series 2006-07)	10,565,000
Section 108 Loan Guarantee	<u>5,705,000</u>
	<u>106,042,832</u>
Invested in capital assets, net of related debt	<u>\$ 167,644,451</u>

4. CASH AND CASH EQUIVALENTS

The Municipality is authorized to deposit its cash and cash equivalents only in institutions approved by the Commonwealth of Puerto Rico Treasury Department and such deposits should be kept in separate accounts in the name of the Municipality. Such financial institutions should maintain collateral for the cash deposited in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) as established by Law No. 69 of August 14, 1991 "Law regulating the deposits of public funds and to provide about security". The Secretary of the Treasury Department of the Commonwealth holds all securities pledged as collateral. The cash and cash equivalents deposited in Governmental Development Bank are excluded of the requirements of this Law and the Municipality does not have a deposit policy about these deposits. Cash and cash equivalents consist of interest-bearing accounts, non-interest bearing accounts and certificates of deposits. The carrying amount of deposits with financial institutions at June 30, 2007 consists of the following:

	<u>Carrying Amount</u>		<u>Total</u>	<u>Bank Balance</u>
	<u>Unrestricted</u>	<u>Restricted</u>		
Commercial banks	\$ 19,569,153	\$ 27,651,954	\$ 47,221,107	\$ 52,024,034
Governmental Development Bank		32,028,858	35,028,858	35,303,155
Component units' banks	<u>2,842,508</u>	<u>100,000</u>	<u>2,942,508</u>	<u>3,002,559</u>
Total	<u>\$ 22,411,661</u>	<u>\$ 59,780,812</u>	<u>\$ 85,192,473</u>	<u>\$ 90,329,748</u>

Custodial credit risk is the risk that in the event of bank failure, the Municipality's deposit might not be recovered. At year-end, the Municipality's bank balance of deposits in commercial banks amounting of \$90.3 millions was covered by FDIC and by collateral held by the Commonwealth's agent in the Commonwealth's name.

5. 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 8.33% for real property and 6.33% 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	1.50%	1.50%
Discounts made by state to taxpayer	<u>(.20%)</u>	<u>(.20%)</u>
	<u>8.33%</u>	<u>6.33%</u>

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.

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, 2007, presented as non current liabilities in the government-wide financial statements amounted to approximately \$67.8 millions of which \$1,722,500 pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2007. See information regarding property tax claim made by the Municipality to CRIM in Note 16.

5. PROPERTY TAXES, Continued

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.

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. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the central government to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999.

6. MUNICIPAL LICENSE TAX

Municipal license tax is recorded in the fiscal year in which payment is due and, accordingly, represents taxes, which are due and uncollected at June 30, 2007. The annual Municipal license tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality are as follows:

Financial institutions - 1.50% of gross revenues

Other organizations - .30% for annual sales up to \$500,000 and, .50% over such volume

7. SALES TAX

During the fiscal year ended June 30, 2006, the Municipal Legislature approved the Ordinance no. 76, series 2005-06 establishing a citizenship contribution of 1%, known as "León tax", over all transactions of sales of goods and services made on Ponce's boundaries. The contribution was effective in July 1, 2006. According to the Ordinance, these new resources will be principally used in the following activities; improvements in health services, to cover the increasing in solid waste disposal costs, public construction, security, social welfare and maintenance of culture and sport facilities. On August 16, 2006, the Municipal Legislature approved the Ordinance no. 12, series 2006-07 increasing the citizenship contribution to 1.5% effective November 15, 2006. Pursuant to the provisions of the Law number 80 of July, 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

8. INTERFUND TRANSACTIONS

Interfund transactions, which are expected to be repaid on or before June 30, 2009, are as follows:

	Amount	Purpose
HUD grants:		
Section 8 - Voucher	\$ 1,013,966	Reimbursable expenditures
Emergency Shelter	5,029	Reimbursable expenditures
CDBG	295,990	Reimbursable expenditures
UDAG	20,277	Reimbursable expenditures
Other	<u>1,166</u>	Reimbursable expenditures
Total HUD grants	<u>1,336,428</u>	
HHS grants:		
Head Start	288,480	Reimbursable expenditures
Ryan White	30,722	Reimbursable expenditures
Child Care	<u>55</u>	Reimbursable expenditures
Total HHS grants	<u>319,257</u>	
Other		
FEMA	148	Reimbursable expenditures
Others	<u>77,960</u>	Reimbursable expenditures
Total other	<u>78,108</u>	
 Total advances between funds	 <u>\$ 1,733,793</u>	

Interfund transfers between the general fund and debt service fund of approximately \$2.13 represent interest income received from the additional special property tax bank account. Interfund transfers from WIA Fund and HUD Fund to General Fund of approximately \$256,170 represent indirect cost recovery. Interfund transfers from Others to General fund of approximately \$750,000 represent operational transfer.

9. ACCOUNTS RECEIVABLE - NET OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Accounts receivable at June 30, 2007, consist of the following:

	Gross Amount	Allowance	Net Amount
Municipal license tax	<u>\$ 177,591</u>	<u>\$ 5,173</u>	<u>\$ 172,418</u>
Others	<u>\$ 653,433</u>	<u>\$ 18,066</u>	<u>\$ 635,367</u>

10. DUE FROM GOVERNMENT

Due from government represents grants and contributions due from local and federal governments:

Local governments:

Municipal Revenue Collection Center (CRIM)	\$ 176,138
Council of Occupational Development and Human Resources	1,717,056
Governmental Development Bank	14,062
Department of Natural Resources	2,360,573
Department of Education	130,450
Rural Development Corp.	402,134
Other	<u>158</u>

Total due from local governments \$ 4,800,571

Federal governments:

Other - FEMA	\$ 266,506
Other funds - Homeland Security	6,095
Other funds - USDA	131,266
Other funds - El Tuque Satellite Center	4,609
Other funds - Bulletproof Best Partnership	27,346
HHS Funds - Ryan White	150,395
HUD - CDBG	3,097,378
HUD - HOME	330,395
HUD - UDAG	61,074
HUD - Emergency Shelter	<u>46,181</u>

Total due from federal governments \$ 4,121,245

11. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

Primary Government Governmental Activities	Balance June 30, 2006	Increase	Decrease	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 47,465,561			\$ 47,465,561
Construction in progress	<u>46,165,762</u>	<u>\$ 8,412,997</u>	<u>\$ 28,244,602</u>	<u>26,334,157</u>
Total capital assets, not being depreciated	<u>93,631,323</u>	<u>8,412,997</u>	<u>28,244,602</u>	<u>73,799,718</u>
Capital assets, being depreciated:				
Buildings and building improvements	68,225,105	1,487,725	897,440	68,815,390
Land improvements	2,627,172	28,376,239		31,003,411
Machinery and equipment	40,661,195	1,176,220	311,547	41,525,868
Infrastructure	<u>105,441,058</u>	<u>9,857,634</u>		<u>115,298,692</u>
Total capital assets, being depreciated	<u>216,954,530</u>	<u>40,897,818</u>	<u>1,208,987</u>	<u>256,643,361</u>
Less accumulated depreciation for:				
Buildings and building improvements	8,654,503	635,169	136,563	9,153,109
Land improvements	584,511	47,289		631,800
Machinery and equipment	22,626,342	2,595,789	474,343	24,747,788
Infrastructure	<u>20,317,479</u>	<u>1,905,620</u>		<u>22,223,099</u>
Total accumulated depreciation	<u>52,182,835</u>	<u>5,183,867</u>	<u>610,906</u>	<u>56,755,796</u>
Total capital assets, being depreciated, net	<u>164,771,695</u>	<u>35,713,951</u>	<u>598,081</u>	<u>199,887,565</u>
Governmental activities capital assets, net	<u>\$ 258,403,018</u>	<u>\$ 44,126,948</u>	<u>\$ 28,842,683</u>	<u>\$ 273,687,283</u>

The Legislature Assembly of the Commonwealth of Puerto Rico approved the Law No. 537 of September 30, 2004. "Municipalización de los Estadios de Ponce, Caguas, Mayagüez y Arecibo". This Law establishes, among other things, that the Recreational and Sports Department should transfer the ownership title of the Auditorium Pachín Vicéns and the Paquito Montaner Stadium to the Municipality. The facilities were transferred in October 5, 2005 at its fair market value. The Ordinance No. 10 (2005-06) authorized the Mayor to realize this process.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007 were as follows:

Funds	Vendors	Salaries and Benefits	Total
General fund	\$ 12,596,550	\$ 1,136,093	\$ 13,732,643
HUD programs	1,166,115	31,493	1,197,608
WIA programs	43,375	252,873	296,248
HHS programs	192,417	245,747	438,164
Other governmental funds	<u>352,236</u>	<u>-</u>	<u>352,236</u>
Total on balance sheet	<u>\$ 14,350,693</u>	<u>\$ 1,666,206</u>	16,016,899
Plus obligation paid with CAE funds			<u>4,505,000</u>
Total on statement of net assets			<u>\$ 20,521,899</u>

13. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2007 was as follows:

ASUME	\$ 278,873
Internal revenue service	26,844
Retirement System of the Commonwealth of Puerto Rico	830,376
Puerto Rico Electric Power Authority	2,213,587
Puerto Rico Public Building Authority	2,035,488
CRIM	1,722,500
Puerto Rico Water and Sewer Authority	647,664
U.S. Housing Urban Development Department	<u>1,022,193</u>
Total	<u>\$ 8,777,525</u>

14. INTERGOVERNMENTAL REVENUES

Following is a detail of intergovernmental revenues:

Federal agencies:

U.S. Health and Human - Ryan White	\$ 1,966,305
U.S. Health and Human -Head Start	11,648,027
U.S. Department of Labor - Workforce Investment Act	3,546,446
U.S. Dept. of Housing Urban Development - Emergency Shelter	230,571
U.S. Dept. of Housing Urban Development – CDBG-Entitlement	5,319,197
U.S. Dept. of Housing Urban Development -Section 8 Choice Voucher	7,694,071
U.S. Dept. of Housing Urban Development -Section 8 - Moderate I and II	381,131
U.S. Dept. of Housing Urban Development -HOME Investment Partnership	2,573,045
U.S. FEMA	746,563
U.S. Department of Justice - Local Law Enforcement Grant	27,344
U.S. Department of Agriculture - USDA	918,560
U.S. Department of Housing Urban Development	197,178
U.S. Department of Justice – Cops Interoperability Community Grant	118,752
Others	<u>4,002</u>
Total federal agencies	<u>\$ 35,371,192</u>

State agencies:

Communities Rehabilitations Projects - Special Communities Trust	\$ 4,470,121
Puerto Rico Department of Natural Resources	2,360,573
Puerto Rico Electric Power Authority	8,108,861
Subsidy and Lottery of Puerto Rico - CRIM	1,405,996
Reimbursement from the Commonwealth of Puerto Rico of christmas bonus expenditure	1,327,213
Rural Development Projects	<u>402,647</u>
Total state agencies	<u>\$ 18,075,411</u>

15. DEFERRED REVENUES

Municipal license tax

The deferred revenues of approximately \$16.5 millions in the general fund related to municipal license tax collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08.

Federal government

The deferred revenues presented as federal and local government represent the portion of federal grants approved and/or received for which all applicable eligibility requirements are not met as established by GASB Statement No. 33. These were related to the following federal programs/grants:

Program/Grant description

USDA	\$	272,904
Home Investment Partnership Recaptures		296,055
UDAG		94,547
Child care		50
Municipal bank		13,578
Other grants		<u>118,560</u>
Total	\$	<u>795,694</u>

16. LONG-TERM DEBT

Bonds outstanding at June 30, 2007 consist of:

1997 general obligation bond due in annual installments of \$410,000 to \$1,220,000, through July 1, 2011; with interest ranging from 6.75% to 5.94%	\$ 4,360,000
1999 general obligation bond due in annual installments of \$115,000 to \$320,000, through July 1, 2013; with interest ranging from 6.00% to 6.11 %	1,605,000
2004 general obligation bond due in annual installments of \$435,000 to \$2,755,000, through July 1, 2025; with interest ranging from 6.13% to 5.60%	27,890,000
2004 general obligation bond due in annual installments of \$1,115,000 to \$1,740,000, through July 1, 2014; with interest ranging from 4.37% to 7.00%	10,535,000
2004 general refunding obligation bond due in annual installments of \$200,000 to \$750,000, through July 1, 2028; with interest ranging from 2.25% to 5.55%	9,770,000
2004 special refunding obligation bond due in annual installments of \$250,000 to \$950,000, through July 1, 2028; with interest ranging from 2.25% to 5.55%	12,115,000
2004 special refunding obligation bond due in annual installments of \$240,000 to \$995,000, through July 1, 2023; with interest ranging from 2.45% to 5.50%	10,805,000
2004 general obligation bond due in annual installments of \$325,000 to \$1,250,000, through July 1, 2023; with interest ranging from 1.56% to 6.00%	14,395,000
2004 special obligation bond due in annual installments of \$85,000 to \$335,000, through July 1, 2028; with interest ranging from 2.45% to 5.60%	4,160,000
2004 special obligation bond due in annual installments of \$150,000 to \$575,000, through July 1, 2028; with interest ranging from 2.45% to 5.60%	7,350,000
2006 general obligation bond due in annual installments of \$204,000 to \$963,000, through July 1, 2028; with interest ranging from 5.57% to 6.50%	10,565,000
2006 general obligation bond due in annual installments of \$146,000 to \$948,000, through July 1, 2028; with interest ranging from 5.57% to 6.50%	<u>7,542,000</u>
Total outstanding bonds	<u>\$ 121,092,000</u>

16. LONG-TERM DEBT, Continued

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

	Principal	Interest
2007 - 2008	\$ 5,420,000	\$ 6,821,979
2008 - 2009	5,810,000	6,631,022
2009 - 2010	6,262,000	6,239,410
2010 - 2011	6,709,000	5,887,331
2011 - 2012	5,864,000	5,504,635
2012 - 2017	28,553,000	22,353,152
2017 - 2022	33,068,000	13,995,183
2022 - 2027	23,777,000	5,146,848
2027 - 2028	<u>5,629,000</u>	<u>568,818</u>
	<u>\$ 121,092,000</u>	<u>\$ 73,148,378</u>

Loan guarantee assistance notes (LGA)

These notes are payable in annual aggregate principal installments of \$540,000 to \$940,000, plus interest rates which fluctuates from 8.04% to 8.19%. These notes are guaranteed by the federal government through the Loan Guarantee Assistance Program and will be repaid from future appropriations to the Municipality's Community Development Block Grant for Puerto Rico program. The balance at June 30, 2007 is \$5,705,000.

Annual maturity requirements for the loan guarantee assistance notes are as follows:

	Principal	Interest
2007 - 2008	\$ 920,000	\$ 309,958
2008 - 2009	940,000	263,733
2009 - 2010	540,000	223,900
2010 - 2011	540,000	191,446
2011 - 2012	545,000	158,298
2012 - 2017	<u>2,220,000</u>	<u>288,688</u>
	<u>\$ 5,705,000</u>	<u>\$ 1,436,023</u>

The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Total property assessed value at June 30, 2007 amounted to approximately \$1.1 billions. Long-term debt, except for the bonds payable and the loan guarantee assistance notes, is paid with unrestricted funds.

16. LONG-TERM DEBT, Continued

Long-term debt activities for the year ended June 30, 2007 was as follows:

Primary Government Governmental Activities	Balance at June 30, 2006	Payment Principal	Interest	Increase (Decrease)	Balance at June 30, 2007	Due within One Year
Public improvements bonds	\$ 390,000	\$ 390,000	\$ 25,011			
General obligation bonds	62,355,000	3,570,000	4,050,936	\$ 18,107,000	\$ 76,892,000	\$ 4,150,000
General refunding obligation bonds	10,015,000	245,000	523,297		9,770,000	255,000
Special refunding obligations bonds	23,570,000	650,000	1,197,644		22,920,000	715,000
Special obligation bonds	11,800,000	290,000	626,161		11,510,000	300,000
Loan guarantee assistance (LGA) notes	6,915,000	1,210,000	358,318		5,705,000	920,000
Rent bond (a)	<u>40,000,000</u>		<u>1,788,494</u>	<u>(40,000,000)</u>		
Subtotal	<u>155,045,000</u>	<u>6,355,000</u>	<u>8,569,861</u>	<u>(21,893,000)</u>	<u>126,797,000</u>	<u>6,340,000</u>
Property tax advance - CRIM	64,440,073			3,420,936	67,861,009	896,331
LIMS Refinancing debt - CRIM	2,355,287	352,457	155,945		2,002,830	508,402
Interest due for accounts sold - CRIM	3,181,746	221,223			2,960,523	221,223
Claims and judgment	2,257,269	353,521		(1,673,748)	230,000	75,000
Compensated absences	<u>15,597,013</u>	<u>1,800,878</u>		<u>(1,472,727)</u>	<u>12,323,408</u>	<u>4,167,031</u>
Subtotal	<u>87,831,388</u>	<u>2,728,079</u>	<u>155,945</u>	<u>274,461</u>	<u>85,377,770</u>	<u>5,867,987</u>
Total long-term debt	<u>\$ 242,876,388</u>	<u>\$ 9,083,079</u>	<u>\$ 8,725,806</u>	<u>\$(21,618,539)</u>	<u>\$212,174,770</u>	<u>\$ 12,207,987</u>

(a) At September 15, 2006, the Port of the Americas Authority assumed the rent obligation bond for the amount of \$40 millions. This money was used in the improvements made in various piers of the Port of Ponce.

17. RETIREMENT PLAN

Plan description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular full time employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, and Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

17. RETIREMENT PLAN, Continued

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 2000 will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Contribution requirements

Commonwealth legislation requires employees to contribute, under a coordination plan, 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and under a supplementation plan, only available to Police, Firefighters and Mayors, 8.275% of gross salary. The Municipality's contributions are 9.275% of gross salary. Law establishes contributions' requirements. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2007 was approximately \$3.8 millions. The Municipality total payroll for all employees was approximately \$50.4 millions. For the two preceding fiscal years, the Municipality contributed approximately \$3.8 millions for each years, which represented 100% of required contributions.

Additional information of ERS is presented in the most recent actuarial valuation report for the year ended June 30, 2003, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

18. RISK MANAGEMENT

The Risk Management Division (RMD) of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the RMD compiles the information of all property owned and its respective market value. After evaluating this information, the RMD submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

19. COMMITMENTS

Primary Government

Operating lease

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, 2007, amounted to approximately \$1.3 millions. 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.

Construction

The Municipality had commitments at June 30, 2007 of approximately \$27.8 millions for the construction, improvements, or renovation of several municipal facilities.

Component unit

Operating lease

The Port of Ponce is the lessor of certain dock and warehousing facilities. Future minimum rentals receivable under such leases at June 30, 2007 are as follows:

Fiscal year ending June 30,	
2008	\$ 949,209
2009	949,209
2010	949,209
2011	949,209
2012	<u>949,209</u>
Total	<u>\$ 4,746,045</u>

20. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER

Contingencies and claims and judgments against the Municipality

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 the legal counsel, that the probable claims against the Municipality not covered by insurance are by the amount of \$2.3 millions at June 30, 2007. In addition, the management's opinion based on the advice of the legal counsel, that the possible claims against the Municipality not covered by insurance are estimated in the amount of \$230,000 at June 30, 2007 and will not affect the financial condition of the Municipality.

20. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER, Continued

The Municipality participates in a number of federal financial assistance programs, funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133" for the year ended June 30, 2005, and 2006 disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls.

If expenditures are disallowed due to noncompliance with grant programs regulations, the Municipality may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors. Although, such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

Primary government litigations and claims in favor of the Municipality

In June 1996, the Ponce Superior Court of the Puerto Rico Court of First Instance entered judgment in favor of the Municipality against several government agencies and the Central Government. Through this judgment, the Court ordered the defendants to construct about 54 projects, which management estimates cost approximately \$160 millions, which were included in the Municipal Land Use Plan of the Municipality, and also ordered the defendants to pay the Municipality damages in the amount of \$16.5 millions. The parties involved were notified of the judgment on June 26, 1996 and from that date, the amount of the judgment earns interest at 5% annually. All defendants to the Circuit Court appealed the judgment and on December 2, 1997 the Circuit Court of Appeals upheld the judgment entered by the Ponce Superior Court. However, the Court modified the damage award and determined that the precise amount of damages to be granted to the Municipality should be determined once the projects covered by the judgment are finished. The Municipality was denied a reconsideration of this determination and appealed to the Supreme Court in April 1998 with the purpose, of reinstating the damage award. In December 2000, the Supreme Court entered a judgment in favor of the Municipality. Since then, management has been negotiating with the Central Government a work schedule for the realization of the project and the collection of the damages. During the fiscal year ended June 30, 2006, the Municipality received approximately \$6.6 millions related to this case.

21. CLOSURE AND POST CLOSURE CARE COSTS AND LANDFILL OBLIGATIONS

The Municipality owns a landfill, which is used by several municipalities including Ponce and administered by BFI Industries, the landfill administrator, an independent private entity, under an agreement with the Municipality. The Municipality is entitled, under the agreement with the administrator, to certain revenues, principally royalties, resulting from the use of the landfill. For the year ended June 30, 2007, revenues earned under the agreement amounted to \$2.6 millions and are presented in the accompanying statement of changes in net assets and statement of revenue, expenditures and changes in fund balances.

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. 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, 2007, the estimated remaining life was approximately 7.5 years.

21. CLOSURE AND POST CLOSURE CARE COSTS AND LANDFILL OBLIGATIONS, Continued

The Municipality formalized an agreement with BFI of Ponce Inc. for the gather, transportation and disposal of municipal waste with period of eight (8) years from July 1, 2001 to June 30, 2009. Under this agreement, BFI assume all related costs in the use of the landfill, activities and resources to complete the services contracted.

The agreement includes the extension and amendment of lease of land common and structures known as "Facilidades del Garage El Tuque" for a period of five (5) years from July 1, 2004 to June 30, 2009. In addition, the contractor is liable to comply with laws, rules, municipal ordinances, regulations of JCA (Junta de Calidad Ambiental) and EPA (Agencia Federal de Protección Ambiental). The charge for service amount is \$6.35 by residential unit and payable monthly to the contractor, and services for public housing are be free if charges. Under this contract, the Municipality is free of liability for closure and post closure costs; therefore, an escrow account is not required.

22. SUBSEQUENT EVENTS

Pursuant to the provisions of the Law number 80 of July, 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

23 RESTATEMENT OF 2006 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2007, the Municipality noted that certain liabilities had been overstated or understated as of June 30, 2006 and accordingly, the net assets at June 30, 2006, as previously reported, has been decreased by \$355,268. A summary of the effects of the restatements in the fiscal year 2005-06 financial statements is as follows:

23 RESTATEMENT OF 2006 FINANCIAL STATEMENTS, Continued

	<u>General</u>	<u>WIA</u>	<u>HUD</u>	<u>Others</u>	<u>Total</u>
Corrections in accounting transactions	\$ (169,173)	\$ 671,832	\$ 20,919		\$ 523,578
Amount due to Sistema de Retiro	(710,593)				(710,593)
Change in accounting principles (GASBS no. 33)	<u>(40,993)</u>		<u>(162,305)</u>	<u>\$ 35,045</u>	<u>(168,253)</u>
Net effect in fund balance (decrease) increase	<u>\$ (920,759)</u>	<u>\$ 671,832</u>	<u>\$ (141,386)</u>	<u>\$ 35,045</u>	<u>\$ (355,268)</u>

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
AND INDEPENDENT AUDITORS' REPORT
OMB CIRCULAR A-133 AUDIT**

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the **Municipality of Ponce**, (“the Municipality”), as of and for the year ended June 30, 2007, which collectively comprise the **Municipality’s** basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the **Municipality’s** management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C.D. (“Patronato”), which is shown as discretely, presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Patronato, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditor provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the other governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the **Municipality of Ponce** as of June 30, 2007 and the respective change in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, certain changes and restatements were made to the reporting entity as presented in the accompanying basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 20, 2007 and March 14, 2008 on our consideration of **the Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, respectively. 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **the Municipality's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards 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 basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 20, 2007

License number 6
Ponce, Puerto Rico

Reyes-Ramos, Sívagnoli & Co.

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COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

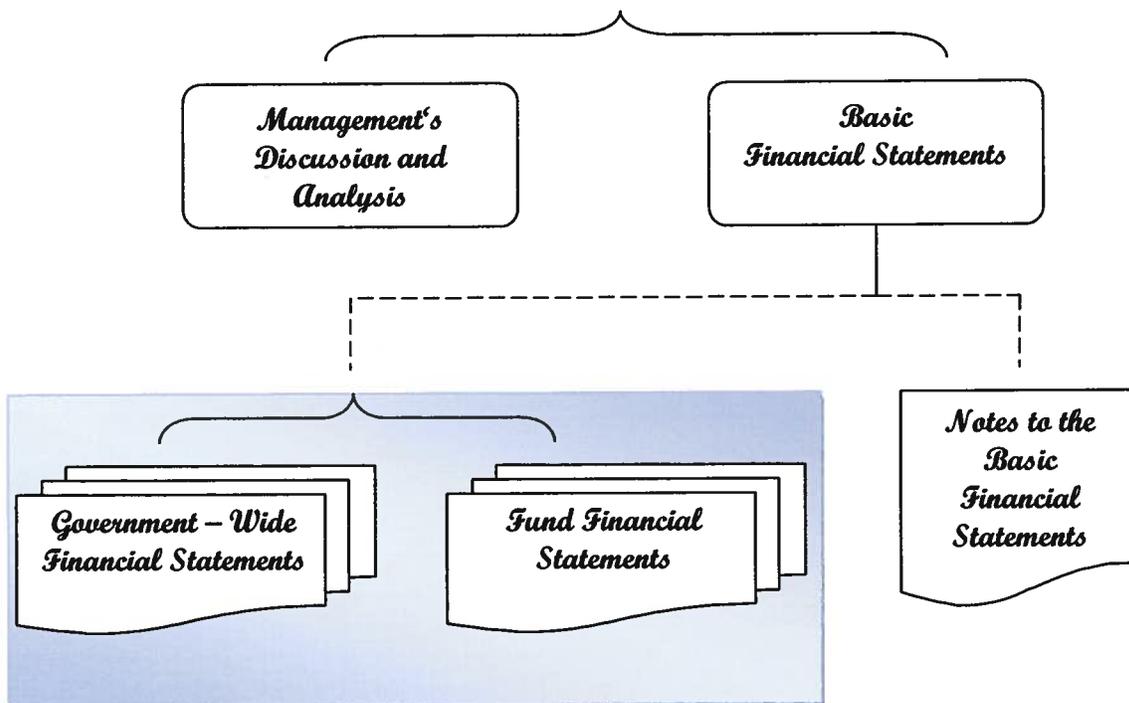
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Municipality of Ponce (the Municipality)**, we offer readers of the **Municipality's** basic financial statements this narrative overview and analysis of the financial activities of the **Municipality** as of and for the fiscal year ended June 30, 2007. All amounts, unless otherwise indicated, are expressed in millions of dollars.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the basic financial statements. The **Municipality's** annual financial report is comprised of the following components: 1) management's discussion and analysis, and 2) basic financial statements. The basic financial statements consist of a government-wide financial statements, fund financial statements and notes to the basic financial statements.

COMPONENTS OF THE ANNUAL FINANCIAL REPORT



GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are comprised of the statement of net assets and the statement of activities. These two statements are designed to provide readers with a broad overview of the **Municipality's** finances using the full accrual method of accounting, in a manner similar to a private-sector business. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

GOVERNMENT-WIDE FINANCIAL STATEMENTS, Continued

These two statements report the **Municipality's** net assets and changes in them. You can analyze the **Municipality's** net assets, as the difference between assets and liabilities, as one way to measure the **Municipality's** financial health, or financial position. Over time, *increases or decreases* in the **Municipality's** net assets are one indicator of whether its *financial health* is improving or deteriorating. However, you will need to consider other 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 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 (business-type activities). The governmental activities of the **Municipality** include general government, public safety, public works, culture and recreation, health and welfare, urban development, legal services, education, training and employment, capital outlays special communities, capital outlays of projects, depreciation and principal plus interest on related long-term debt.

Other kinds of activities of the **Municipality** are the component units that include from separate legal entities in its report, the Port of Ponce (POP), Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D. ("Patronato Castillo Serrallés") and Corporación para el Desarrollo de la Zona Libre de Ponce, C. D. (CODEZOL). Although legally separate, these "components units" are important for the **Municipality** because are financially accountable for them and your significant importance for us.

The government-wide financial statements can be found on pages 14 to 16 of this report.

GOVERNMENTAL FUNDS

Government 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, the governmental funds financial statements use the modified accrual basis of accounting, which focuses on near-term inflow and outflow of spend able resources, as well as on balances of spend able resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

The **Municipality** maintains six individual governmental funds; General Fund , Health and Human Service Grants (HHS), Workforce Investment Act Grants (WIA), Debt Service, Housing Urban Development Grants (HUD) and Others Funds. The Others Funds include the Municipal Bank. Information is shown in the balance sheet and in the statement of revenues, expenditures and changes in fund balances.

Budgetary comparison statements for the general fund and debt service fund are required by law and are included in the basic financial statements on pages 23 and 24 of this report.

The governmental funds financial statements can be found on pages 17 to 21 of this report.

NOTES TO THE BASIC 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 25-49 of this report.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FINANCIAL HIGHLIGHTS

- **The Municipality's capital assets increased as a result of this year's operations. Capital assets as of June 30, 2007 were \$273.7 millions, as compared to \$258.4 millions in 2006.**
- **At June 30, 2007, the Municipality's governmental funds reported total ending fund balances of \$44.6 millions. Capital Projects fund balance had an ending balance of \$33.5 millions which represent 75% of total fund balance.**
- **For the year ended June 30, 2007, the Municipality had total revenues of \$161.8. millions. The general fund shown revenues by \$115.2 millions, which represent 71.2% of total revenues.**
- **The investment in capital assets, net of related of debt, for this year was \$167.6 millions. The Municipality uses these assets to provide services to citizens. Although the Municipality's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.**

Governmental Activities

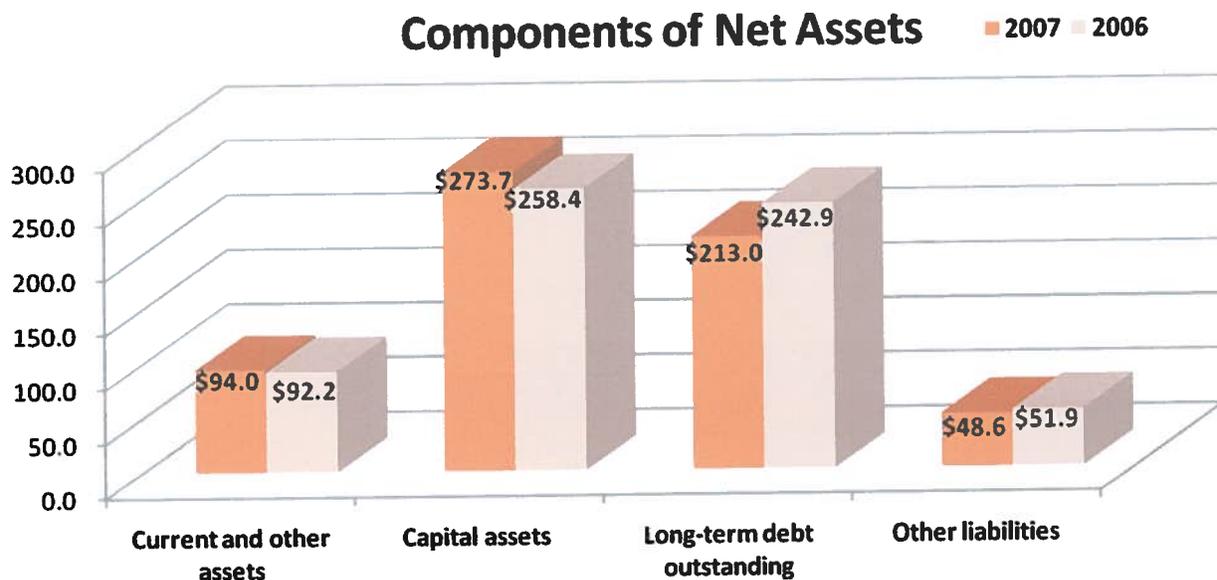
Net assets of the Municipality's governmental activities increased from \$55.84 millions in 2006 to \$106.12 millions in 2007. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased from approximately \$(122.72) millions at June 30, 2006 to approximately \$(119.54) millions at June 30, 2007.

**TABLE 1
NET ASSETS**

	<u>Governmental Activities</u>	
	2007	2006
Current and other assets	\$ 94.02	\$ 92.24
Capital assets	<u>273.69</u>	<u>258.40</u>
Total assets	<u>367.71</u>	<u>350.64</u>
Long-term debt outstanding	213.00	242.89
Other liabilities	<u>48.59</u>	<u>51.91</u>
Total liabilities	<u>261.59</u>	<u>294.80</u>
Net assets:		
Invested in capital assets, net of related debt	167.65	126.38
Restricted for:		
Debt services	3.51	4.58
Capital projects	33.52	31.18
Federal programs	6.84	7.89
Special purposes	14.14	8.53
Unrestricted	<u>(119.54)</u>	<u>(122.72)</u>
Total net assets	<u>\$ 106.12</u>	<u>\$ 55.84</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007



Total revenues for the Municipality's governmental activities increased by \$18.06 millions and total expenses decreased by \$0.74 millions. The increase in revenues is mainly due to the implementation of the citizenship contribution named as "León Tax".

During the fiscal year the Municipality took the following major actions to improve its financial position:

- The Mayor of the Municipality made various committees to supervising the operations of all departments. The components of that committee were met, at lease, once per month. In those meetings the Mayor received various financial reports, such as, cash-flows statement, budget vs. actual, aging of accounts payable and a management report with the necessary explanations of the each account variance and the status of accounts payable and accrued expenses. The financial decisions of the Mayor were principally supported by those reports.
- During the fiscal year 2006-2007, the Municipality received various resources of State Government, such as Donativo Bonos de Mejoras Publicas".
- In the budget regarding the administration, the Municipality received the estimated of expenses by each department, and the Finance and Budget Director and the Mayor performed the evaluation to those expenses and determine the needed of each one, looking for the reduction of those unnecessary expenses without affecting the daily operations.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

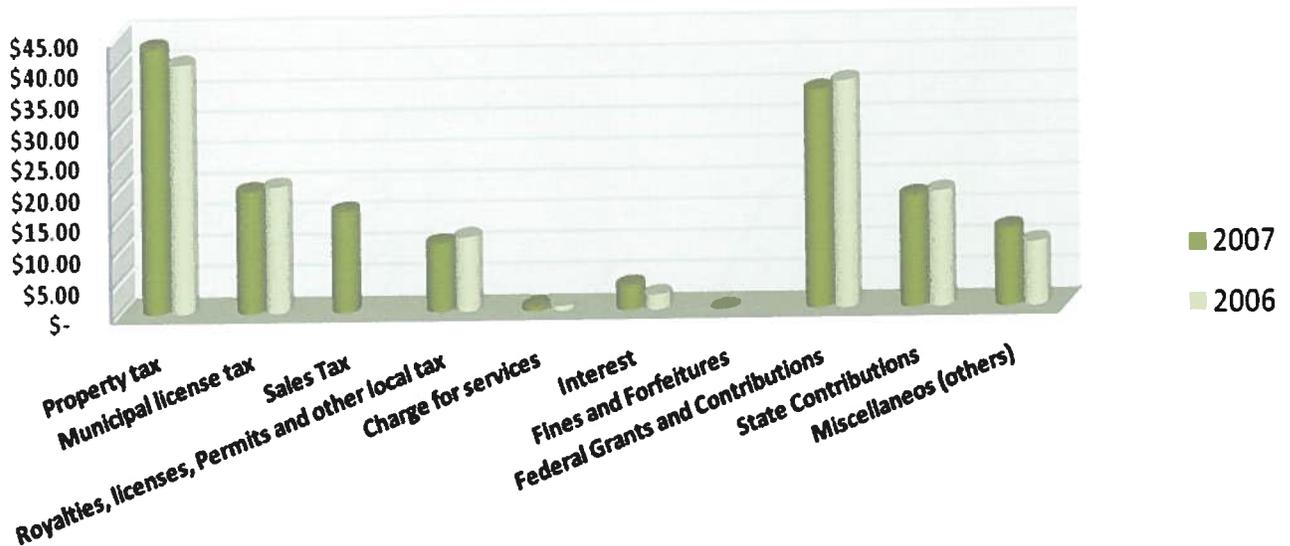
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Revenues in the statement of revenues, expenditures and changes in fund balances, pages 20 to 21, for the fiscal years ended June 30, 2007 were as follows:

**TABLE 2
GOVERNMENTAL REVENUES**

	<u>Total Revenues</u>	
	2007	2006
Property tax	\$ 43.18	\$ 40.46
Municipal license tax	19.78	20.45
Sales tax	16.43	-
Royalties, licenses, permits and other local tax	11.17	12.08
Charges for services	0.78	0.80
Fines and forfeitures	0.23	0.05
Interest	4.07	2.47
Federal Grants and Contributions	35.37	36.81
State Grants and Contributions	18.08	18.75
Miscellaneous	<u>12.67</u>	<u>10.39</u>
Total	<u>\$ 161.76</u>	<u>\$ 142.26</u>

2007 Governmental Revenues



COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

REPORTING THE MUNICIPALITY'S MOST SIGNIFICANT FUNDS

Government-wide financial statements

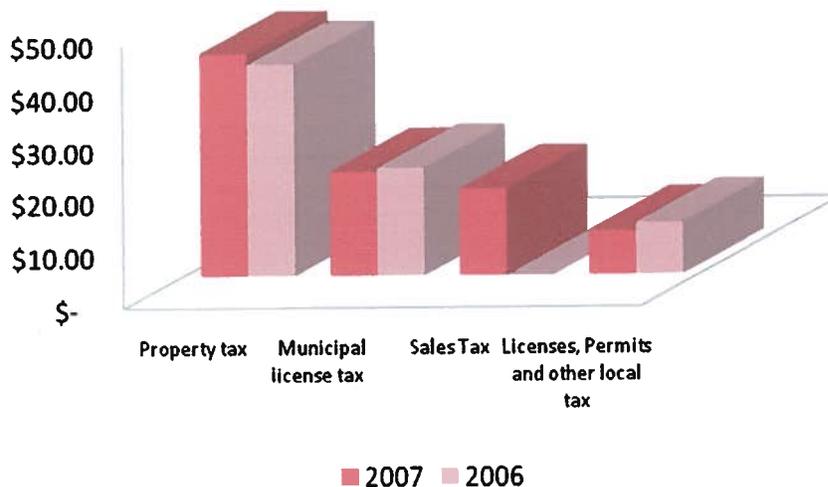
The statement of activities presented on page 16, provide detailed information about the most significant funds, of the Municipality.

The principal governmental revenues including, property tax, municipal license tax, sales tax and licenses and permits amounted to \$87.75 millions in 2007 and \$70.64 in 2006. During the fiscal year 2006-07, Port of Ponce transferred \$1.0 millions to the Municipality, as established by Resolution No. 176 (2006-07), and the debt service fund transferred to infrastructure fund approximately \$2.1 millions for public improvements.

The Municipality's governmental funds reported a change in net assets of \$50.63 millions in 2007 and \$39.21 millions in 2006. Table 3 and 4 shown the principal resources collected by governmental activities:

**TABLE 3
GOVERNMENTAL ACTIVITIES REVENUES**

	General Revenues by Major Sources	
	2007	2006
Property tax	\$ 43.18	\$ 40.41
Municipal license tax	19.78	20.45
Sales tax	16.43	-
Licenses, permits and other local tax	<u>8.36</u>	<u>9.78</u>
Total	<u>\$ 87.75</u>	<u>\$ 70.64</u>

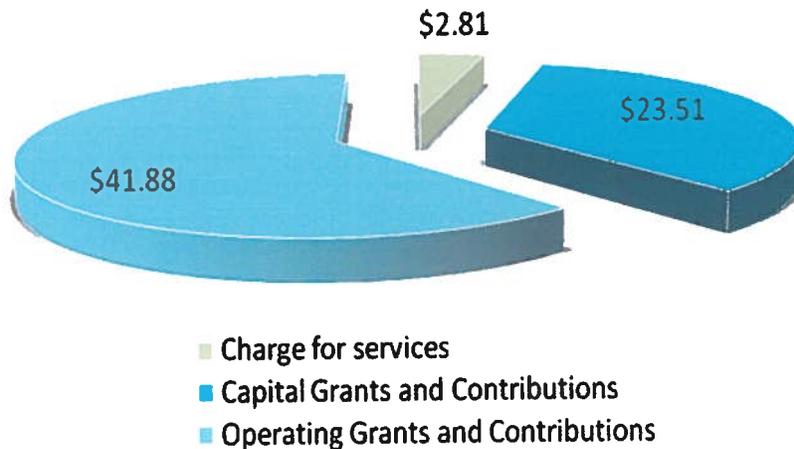


COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**TABLE 4
GOVERNMENTAL ACTIVITIES**

	Program Revenues by Major Sources	
	2007	2006
Charges for service	\$ 2.81	\$ 2.30
Operating grants and contributions	41.88	40.11
Capital grants and contributions	<u>23.51</u>	<u>26.36</u>
Total	<u>\$ 68.20</u>	<u>\$ 68.77</u>



The cost of all governmental activities for the year ended June 30, 2007 was \$147.50 millions as compared to \$148.24 millions in prior year. Table 5 below, presents the cost of each of the Municipality's largest program expenses for the fiscal year ended June 30, 2007.

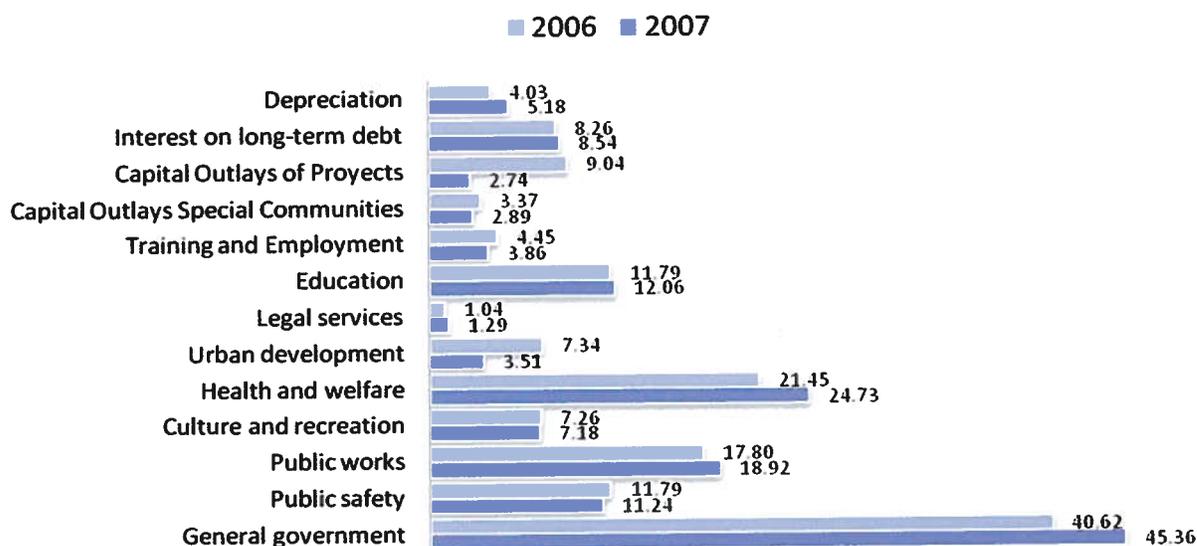
COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**TABLE 5
GOVERNMENTAL ACTIVITIES**

	<u>Total Expenses</u>	
	2007	2006
General government	\$ 45.36	\$ 40.62
Public safety	11.24	11.79
Public work	18.92	17.80
Culture and recreation	7.18	7.26
Health and welfare	24.73	21.45
Urban development	3.51	7.34
Legal services	1.29	1.04
Education	12.06	11.79
Training and employment	3.86	4.45
Capital outlays - special communities	2.89	3.37
Capital outlays - projects	2.74	9.04
Interest on long-term debt	8.54	8.26
Depreciation	<u>5.18</u>	<u>4.03</u>
Total	\$ <u>147.50</u>	\$ <u>148.24</u>

**Governmental Activities
(In Millions)**



COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Fund financial statements

Governmental funds, as presented in the balance sheet on pages 17 and 18 reported a total fund balance of \$44.6 millions in 2007, and \$39.6 millions in 2006.

Also, there are others explanations that have been identified and should be read in conjunction.

- **The Municipality** reduced its deficit of the unreserved fund balance as of June 30, 2007 by approximately \$5 millions as compared to June 30, 2006.
- During the fiscal year, **the Municipality** maintained a revenue trend in property tax due to the effort of the **Municipality's** property tax office.
- State contributions of approximately \$18.1 millions, principally include \$6.83 millions of the legal claim of Ponce en Marcha, and \$8.11 of in lieu of tax provided by PR Electric Power Authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

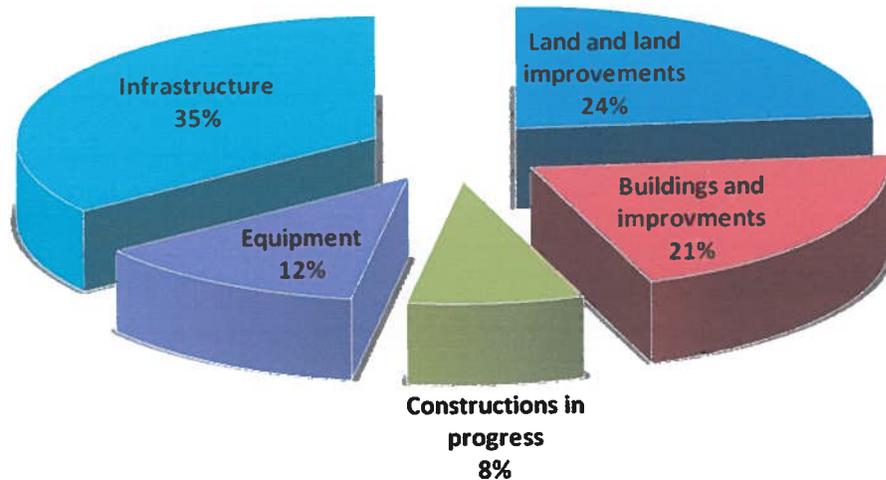
As of June 30, 2007, **the Municipality** had \$330.45 millions invested in a broad range of capital assets, including buildings, parks, roads, bridges, and equipment, see Table 6 below. This amount represents a net increase of \$19.86 millions.

TABLE 6
CAPITAL ASSETS
(In thousands)

	<u>Governmental Activities</u>	
	2007	2006
Land and land improvements	\$ 78.47	\$ 50.09
Buildings and improvements	68.82	68.23
Construction in progress	26.33	46.17
Equipment	41.53	40.66
Infrastructure	<u>115.30</u>	<u>105.44</u>
Total	<u>\$ 330.45</u>	<u>\$ 310.59</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



Buildings and improvements increased by approximately \$600,000 and land and land improvements increased by \$28.38 millions, mainly due to the fact that the construction to the various piers in the Port of Ponce was substantially completed in this fiscal year. Detailed information about the Municipality's capital assets is presented in Note 11 to the basic financial statements.

Debt

At year-end, the Municipality had \$212.17 millions in bonds, notes and other long-term debts outstanding as compared to \$243.70 millions in prior year, decreased by \$31.53 millions, as shown in Table 7 below.

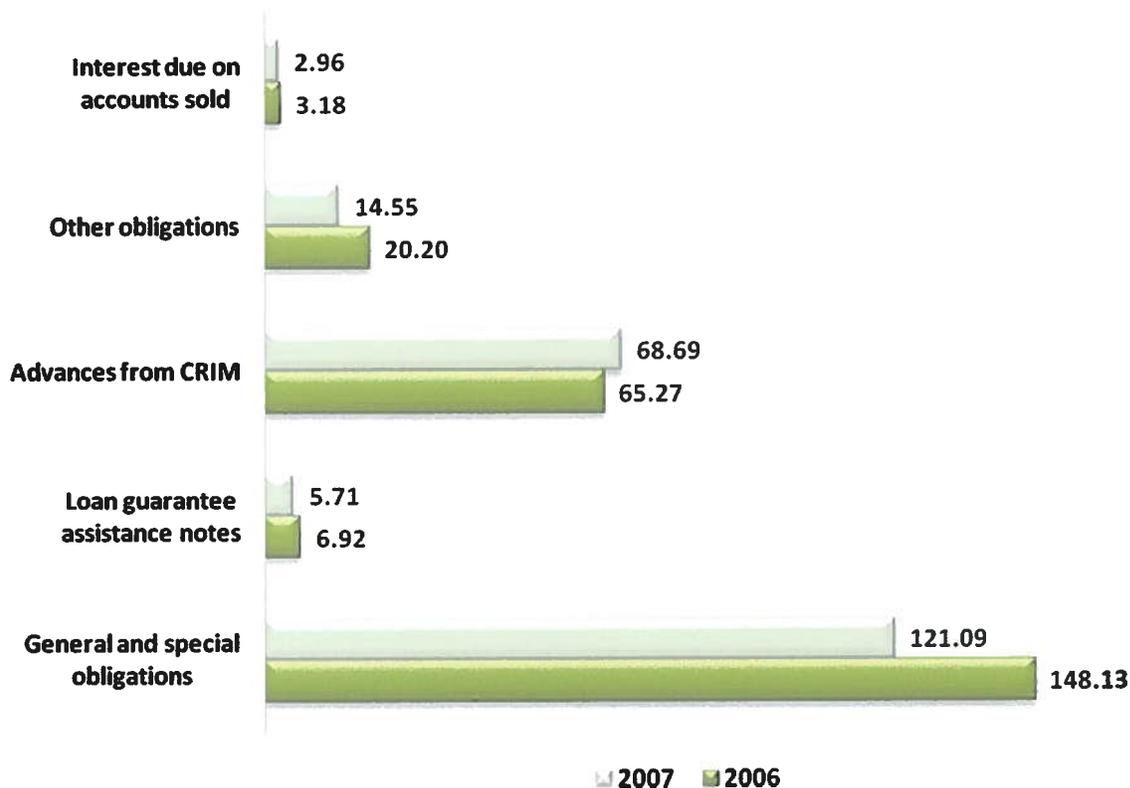
**TABLE 7
OUTSTANDING DEBT
(In thousands)**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
General and special obligation	\$ 121.09	\$ 148.13
Loan guarantee assistance notes	5.71	6.92
Advances from CRIM	67.86	65.27
Other obligations	14.55	20.20
Interest due for accounts sold	<u>2.96</u>	<u>3.18</u>
Total	<u>\$ 212.17</u>	<u>\$ 243.70</u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

2007 Outstanding Debt



The Municipality is 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. Other obligations include compensated absences, LIMS refinancing debt, claims and judgments. Detailed information about the Municipality's long-term liabilities is presented in Note 16 to the basic financial statements.

GENERAL FUND BUDGETARY AND ECONOMIC FACTORS HIGHLIGHTS

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2006-2007 budget.

During the fiscal year 2006-2007, the original budget was amended to increase revenues by \$2.13 millions. The increase in appropriations was to be funded from additional state contributions obtained from Electric Power Authority and \$1.75 from the sales tax.

Actual revenues included in the general fund increased by \$3.69 as compared to budgeted revenues. This increase was principally in sales tax and property tax. The management decided to amend the next fiscal year's budget based in this excess of revenues

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The statement of revenues and expenditures - general fund - budget and actual in page 23 presented a final budgeted excess of revenues of approximately \$4.38 millions.

The original and final budget (General Fund and Debt Service Fund) 2005-06 are presented in pages 23 and 24 providing detailed information to legal compliance.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of **the Municipality's** finances and to show the accountability for the money it receive. If you have questions about this report, separately issued components unit's financial statements, or need additional financial information, contact us at Municipality of Ponce, PO Box 331709, Ponce, Puerto Rico 00733-1709.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Component Units			
ASSETS	Governmental Activities	Port of Ponce	CODEZOL	Patronato
Cash (Notes 1 and 4)	\$ 19,569,153	\$ 1,914,433	\$ 616,602	\$ 311,473
Accounts receivable, net (Note 1):				
Municipal license tax (Note 9)	172,418			
Sales tax	1,614,492			
Loans	383,645			
Other (Note 9)	635,367	129,993	90,787	839
Interest receivable	45,629			
Due from local government (Note 10)	4,800,571			
Due from federal government (Note 10)	4,121,245			
Due from primary government		203,869		
Other assets		52,193	24,870	62,697
Restricted assets:				
Cash and cash equivalents (Notes 1 and 4)	41,590,518		100,000	
Cash and cash equivalents with fiscal agent (Notes 1 and 4)	21,090,294			
Real estate projects under construction (Note 1)				
Capital assets (Notes 1 and 11):				
Non-depreciable	73,799,718			232,917
Depreciable, net of accumulated depreciation	<u>199,887,565</u>	<u>2,692,555</u>	<u>52,464</u>	<u>211,988</u>
Total assets	<u>367,710,615</u>	<u>4,993,043</u>	<u>884,723</u>	<u>819,914</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF NET ASSETS (CONTINUED)
 JUNE 30, 2007

	Governmental Activities	Component Units		
		Port of Ponce	CODEZOL	Patronato
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts payable and accrued liabilities (Note 12)	\$ 20,521,898	\$ 539,918	\$ 48,176	\$ 167,274
Due to other agencies (Note 13)	8,777,525			29,681
Notes payable				
Deferred revenues (Note 15):				
Municipal license tax	16,459,660			
Federal government	795,694			
Other	9,838			
Accrued interest	2,855,490			
Non current liabilities (Note 16):				
Due within one year	12,207,987			
Due after one year	199,966,783			
Total liabilities	<u>261,594,875</u>	<u>539,918</u>	<u>48,176</u>	<u>196,955</u>
NET ASSETS:				
Investment in capital assets, net of related debt	167,644,451			
Restricted for:				
Federal grants	6,841,557			
Debt service	3,506,838			
Special purposes	14,143,496			107,893
Capital project	33,518,024		52,464	
Unrestricted (deficit)	(119,538,626)	4,453,125	784,083	515,066
Total net assets	<u>\$ 106,115,740</u>	<u>\$ 4,453,125</u>	<u>\$ 836,547</u>	<u>\$ 622,959</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenues			Primary Governmental Activities	Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Port of Ponce
					CODEZOL	Patronato
PRIMARY GOVERNMENT						
Governmental activities:						
General government	\$ 45,359,209	\$ 2,812,705	\$ 7,233,336	\$ (38,125,873)		
Public safety	11,244,021		176,429	(11,067,592)		
Public works	18,917,495			7,404,095		
Culture and recreation	7,181,599			(7,181,599)		
Health and welfare	24,725,876		13,533,172	(11,192,704)		
Urban development	3,511,861		17,395,557	13,883,696		
Legal services	1,288,482			(1,288,482)		
Education	12,064,727			(12,064,727)		
Training and employment	3,863,414		3,546,446	(316,968)		
Capital outlays:						
Special communities	2,885,817			(2,885,817)		
Projects	2,738,107			(2,738,107)		
Depreciation	5,183,867			(5,183,867)		
Interest	8,539,042			(8,539,042)		
TOTAL	\$ 147,503,517	\$ 2,812,705	\$ 41,884,940	\$ 23,508,885	\$ (871,654)	\$ (11,442)
					\$ (130,238)	\$ (11,442)
					\$ (130,238)	\$ (11,442)
COMPONENT UNITS:						
Port of Ponce	\$ 2,584,233	\$ 1,434,925	\$ 277,654	\$ (871,654)		
CODEZOL	501,205	370,967				
Patronato	1,292,299	457,946	\$ 822,911			
TOTAL	\$ 4,377,737	\$ 2,263,838	\$ 822,911	\$ 277,654	\$ (871,654)	\$ (11,442)
General revenues:						
Property tax (Note 5)				42,458,837		
Municipal license tax (Note 6)				19,783,776		
Sales tax (Note 7)				16,433,589		
Licenses, permits and other local tax				8,356,460		
Grants and contributions not restricted to specific programs				719,589		8,669
Interest				4,069,620		
Transfer from Port of Ponce				1,000,000		
Transfer to Port of Las Americas				(3,903,811)		23,928
Other				1,008,312		
Extinguishment of debt (Note 16)				40,000,000		
Total general revenues				129,926,374	35,386	32,597
Change in net assets				50,629,387	(94,852)	21,155
Net assets, as previously reported				55,841,621	878,935	601,804
Prior period adjustments (Note 22)				(355,268)		
Net assets, as restated				55,486,353	878,935	601,804
Net assets, ending				\$ 106,115,740	\$ 784,083	\$ 622,959

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	HHS Grants	Workforce Investment Act Grants	Debt Service	HUD Grants	Others	Total Governmental Funds
ASSETS							
Cash (Notes 1 and 4)	\$ 19,569,153						\$ 19,569,153
Accounts receivable, net (Notes 1 and 9):							
Municipal license tax	172,418						172,418
Sales tax	1,614,492						1,614,492
Other	529,623				\$ 105,745	\$ 383,645	635,368
Loans receivable				\$ 45,629			45,629
Interest receivable				176,138		158	4,800,571
Due from local government (Note 10)	2,907,219	\$ 150,395	\$ 1,717,056		3,535,029	\$ 435,821	4,121,245
Due from federal government (Note 10)		288,535			1,049,000		1,733,793
Due from other funds (Note 8)	396,258						
Restricted cash:							
Cash and cash equivalents (Notes 1 and 4)	37,069,440	69,528	374,056		3,663,391	414,103	41,590,518
Cash and cash equivalents with fiscal agent (Notes 1 and 4)	9,512,648			10,645,561		932,085	21,090,294
TOTAL	\$ 71,771,251	\$ 508,458	\$ 2,091,112	\$ 10,867,328	\$ 8,353,165	\$ 2,165,812	\$ 95,757,126

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)

JUNE 30, 2007

	General	HHS Grants	Workforce Investment Act Grants	Debt Service	HUD Grants	Others	Total Governmental Funds
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Accounts payable and accrued liabilities (Note 12)	\$ 13,732,643	\$ 438,164	\$ 296,248	\$	\$ 1,197,608	\$ 352,236	\$ 16,016,899
Due to other agencies (Note 13)	7,755,332				1,022,193		8,777,525
Due to other funds (Note 8)	922,996	35,466			730,846	44,485	1,733,793
General obligations:							
Bonds				\$ 4,505,000			4,505,000
Accrued interest				2,855,490			2,855,490
Deferred revenues (Note 15):							
Municipal license tax	16,459,660						16,459,660
Others	9,838						9,838
Federal government		50			390,603	405,042	795,695
Total liabilities	38,880,469	473,680	296,248	7,360,490	3,341,250	801,763	51,153,900
FUND BALANCE:							
Reserved for:							
Encumbrances (Note 2)	6,275,408		671,832			777,537	7,724,777
Federal grants		34,778	1,123,032		5,011,915		6,169,725
Debt service				3,506,838			3,506,838
Special purposes	13,365,959						13,365,959
Capital projects	33,518,024						33,518,024
Unreserved fund balance	(20,268,609)					586,512	(19,682,097)
Total fund balance	32,890,782	34,778	1,794,864	3,506,838	5,011,915	1,364,049	44,603,226
TOTAL	\$ 71,771,251	\$ 508,458	\$ 2,091,112	\$ 10,867,328	\$ 8,353,165	\$ 2,165,812	\$ 95,757,126

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF
NET ASSETS
JUNE 30, 2007**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 44,603,226

Amounts reported for governmental activities in the statement of net assets are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 273,687,284
- Some liabilities including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 3) (212,174,770)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 106,115,740

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General	HHS Grants	Workforce Investment Act Grants	Debt Service	HUD Grants	Others	Total Governmental Funds
REVENUES:							
Property tax (Note 5)	\$ 32,760,010			\$ 10,415,860			\$ 43,175,870
Municipal license tax (Note 6)	19,783,776						19,783,776
Sales tax (Note 7)	16,433,589						16,433,589
Royalties and others	2,812,705						2,812,705
Licenses, permits and other local tax	8,356,460						8,356,460
Charges for services and rents	776,836						776,836
Fines and forfeitures	231,478						231,478
Interest	3,572,266			364,747	132,606		4,069,619
Intergovernmental revenues (Note 14):							
Federal grants and contributions	18,075,411	\$ 13,614,332	\$ 3,546,446		16,395,307	1,815,107	35,371,192
State contributions	12,424,657				239,002	3,152	18,075,411
Other	115,227,188	13,614,332	3,546,446	10,780,607	16,766,915	1,818,259	12,666,811
Total revenues							161,753,747
EXPENDITURES:							
Current:							
General government	47,812,827						47,812,827
Public safety	11,067,592					176,429	11,244,021
Public works	18,917,495						18,917,495
Culture and recreation	7,181,599						7,181,599
Health and welfare	9,701,634	1,966,305			12,139,317	918,620	24,725,876
Urban development					3,511,392	469	3,511,861
Legal services	1,288,482						1,288,482
Education		12,064,727	3,863,414				12,064,727
Training and employment							3,863,414
Capital outlays:							
Special communities	2,885,817						2,885,817
Projects	23,206,240						23,206,240
Debt service:							
Principal	640,000			4,505,000	1,210,000		6,355,000
Interest	2,963,297			5,217,426	358,319		8,539,042
Total expenditures	125,664,983	14,031,032	3,863,414	9,722,426	17,219,028	1,095,518	171,596,401
Excess (deficiency) of revenues over expenditures	(10,437,795)	(416,700)	(316,968)	1,058,181	(452,113)	722,741	(9,842,654)

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>HHS Grants</u>	<u>Workforce Investment Act Grants</u>	<u>Debt Service</u>	<u>HUD Grants</u>	<u>Others</u>	<u>Total Governmental Funds</u>
OTHER FINANCING SOURCES							
(USES):							
Loan proceeds	18,107,000						18,107,000
Transfer from Port of Ponce	1,000,000						1,000,000
Transfer to Port of Las Americas	(3,903,811)						(3,903,811)
Transfers in	20,988,559			(2,133,452)	(397,422)	402,109	21,390,668
Transfers out	(18,859,794)						(21,390,668)
Total other financing sources (uses)	<u>17,331,954</u>			<u>(2,133,452)</u>	<u>(397,422)</u>	<u>402,109</u>	<u>15,203,189</u>
Excess (deficiency) of revenues over expenditures and other financing sources	<u>6,894,159</u>	<u>(416,700)</u>	<u>(316,968)</u>	<u>(1,075,271)</u>	<u>(849,535)</u>	<u>1,124,850</u>	<u>5,360,535</u>
FUND BALANCE, July 1, 2006, As previously reported	26,917,382	451,478	1,440,000	4,582,109	6,002,836	204,154	39,597,959
PRIOR PERIOD ADJUSTMENTS (Note 22)	<u>(920,759)</u>		<u>671,832</u>		<u>(141,386)</u>	<u>35,045</u>	<u>(355,268)</u>
FUND BALANCE, July 1, 2006, As restated	<u>25,996,623</u>	<u>451,478</u>	<u>2,111,832</u>	<u>4,582,109</u>	<u>5,861,450</u>	<u>239,199</u>	<u>39,242,691</u>
FUND BALANCE, June 30, 2007	<u>\$ 32,890,782</u>	<u>\$ 34,778</u>	<u>\$ 1,794,864</u>	<u>\$ 3,506,838</u>	<u>\$ 5,011,915</u>	<u>\$ 1,364,049</u>	<u>\$ 44,603,226</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - 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 FISCAL YEAR ENDED JUNE 30, 2007**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 5,360,535

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures. However, in the statement of activities and change in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 42,501,764
- Loss on disposition of capital assets reported in the statement of activities, but do not require including as current expenditures. (75,352)
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the source of current financial resources. (5,183,867)
- Some Municipality's long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds as expenditures:
 - Increase in property tax advances (3,420,936)
 - Net decrease in legal claims and judgments 2,027,269
 - Net decrease in compensated absences 3,273,605
 - Decrease in LIMS refinancing debt, and interest due for accounts sold 508,402
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduce the long-term obligations in the statement of activities. 6,355,000
- Property taxes revenues included in the statements of activities and therefore are not reported in the funds statements as available and measurable criteria (717,033)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 50,629,387

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 30,937,778	\$ 30,937,779	\$ 32,760,010	\$ 1,822,231
Municipal license tax	21,870,478	21,870,478	19,888,265	(1,982,213)
Sales tax	8,000,000	9,750,000	16,433,589	6,683,589
Royalties and other	2,000,000	2,000,000	2,621,926	621,926
Licenses, permits and other				
local taxes	10,151,793	10,151,793	6,766,707	(3,385,086)
Charges for services and rents	1,187,074	1,187,074	779,273	(407,801)
Fines and forfeitures	191,785	191,785	231,478	39,693
Interest	1,591,000	1,591,000	2,635,752	1,044,752
Intergovernmental revenues -				
federal grant and contribution	177,919	177,919	204,224	26,305
State contributions	11,459,184	11,843,620	10,842,070	(1,001,550)
Other revenues	<u>4,538,270</u>	<u>4,538,270</u>	<u>4,764,142</u>	<u>225,872</u>
Total revenues	<u>92,105,281</u>	<u>94,239,718</u>	<u>97,927,436</u>	<u>3,687,718</u>
EXPENDITURES:				
General government	41,529,617	42,832,774	43,995,043	1,162,269
Public safety	11,883,794	12,428,691	18,917,475	6,488,784
Public works	19,291,708	19,291,708	11,010,881	(8,280,827)
Culture and recreation	6,830,665	6,875,181	6,819,325	(55,856)
Health and welfare	9,701,634	9,701,634	9,701,634	-
Legal services	1,053,060	1,294,927	1,288,482	(6,445)
Debt service:				
Principal	640,000	640,000	640,000	-
Interest	<u>1,174,803</u>	<u>1,174,803</u>	<u>1,174,803</u>	<u>-</u>
Total expenditures	<u>92,105,281</u>	<u>94,239,718</u>	<u>93,547,643</u>	<u>(692,075)</u>
EXCESS OF EXPENDITURES OVER REVENUES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,379,793</u>	<u>\$ 4,379,793</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

**STATEMENT OF REVENUES AND EXPENDITURES - DEBT SERVICE FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 9,144,499	\$ 9,144,499	\$ 10,415,860	\$ 1,271,361
Interest	-	-	364,747	364,747
Total revenues	<u>9,144,499</u>	<u>9,144,499</u>	<u>10,780,607</u>	<u>1,636,108</u>
EXPENDITURES:				
Debt service:				
Principal	4,289,531	4,289,531	5,217,426	927,895
Interest	<u>4,854,968</u>	<u>4,854,968</u>	<u>4,505,000</u>	<u>(349,968)</u>
Total expenditures	<u>9,144,499</u>	<u>9,144,499</u>	<u>9,722,426</u>	<u>577,927</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,058,181</u>	<u>\$ 1,058,181</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The 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, community developments, education, and other miscellaneous services.

Summary of significant accounting policies

The accounting policies and financial reporting practices of **the Municipality** conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 34: “*Basic Financial Statements - and Management’s Discussion and Analysis – for State and Local Governments*”, (GASB No. 34). This statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way **the Municipality** prepares and presents financial information. The Statement was adopted as of July 1, 2001. In addition, to this Statement, GASB Statement No. 37: “*Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*”, and GASB Statement No. 38: “*Certain Financial Statement Note Disclosures*” have been adopted and are reflected in these financial statements.

Reporting entity

These basic financial statements present **the Municipality** and its component units. As defined by GASB Statement No. 14, as amended by GASB Statement No. 39, component units are entities that are legally separate organizations that are included in **the Municipality’s** reporting entity because of the significance of their operating of financial relationship with **the Municipality** by the nature and significance of the relationship between the entity and a primary government.

The following discretely presented component units are in the basic financial statements:

- **Port of Ponce (“POP”)** was formed as a result of an 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.
- **Corporación para el Desarrollo Económico de Proyectos Comerciales y de Vivienda de Ponce, C. D. (“CODEPCOVI”)** was incorporated on September 23, 1985, as a public nonprofit corporation to promote the economic development of the City of Ponce, originally under the name of Ponce Economic Development Corporation. CODEPCOVI’s principal activity consists of granting loans to small businesses. CODEPCOVI’s activities are principally financed through contributions from **the Municipality** using federal assistance and interest charges to borrowers. However, CODEPCOVI closed its operations effective June 30, 2006.
- **Corporación para el Desarrollo de la Zona Libre de Ponce, C. D. (“CODEZOL”)** was incorporated on September 25, 1997, as special municipal development nonprofit corporation for develop international commerce principally between Europe, Caribbean zone, North, South and Central America through Foreign Trade Zone (License FTZ No. 163). Municipal Legislature authorized the creation of a special corporation on Resolution No. 15. (Series 1992-93)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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 Serralles 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 receive a monthly administration fee for operation of museum. Municipal Legislature authorized the creation of a special corporation on Resolution No. 179. (Series 2001-02).

Separate financial statements of the individual component units can be obtained from their respective administrative offices.

Port of Ponce
Road 10 final
Playa de Ponce
Ponce, Puerto Rico 00731

**Corporación para el Desarrollo de la
Zona Libre de Ponce, C. D. (CODEZOL)**
Avenida Santiago de los Caballeros No. 1
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

Government-wide and fund financial statements

Government-wide financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is financially accountable. **The Municipality's** activities are considered governmental type. The statement of net assets presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- 1) Invested in capital assets, net of related debt – these consist of capital assets, less accumulated depreciation and reduced by any outstanding debt that are attributed to the acquisition, construction or improvement of those assets.
- 2) Restricted net assets – these result when constraints placed on net asset use are either externally imposed by grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- 3) Unrestricted net assets – these consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Internally dedicated resources are reported as general revenues rather than as program revenues. Taxes and other items not properly included among program revenue are reported instead as general revenue. Resources that are dedicated internally are reported as general revenue rather than as program revenue.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column as others.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, **the Municipality** considers most revenue to be available if collected within 90 days after the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Modifications to the accrual basis of accounting are shown in pages 19 and 22.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by **the Municipality**.

The Municipality reports the following major governmental funds:

General fund - This is the operating fund of **the Municipality**. It is used to account for all financial transactions, except those required to be accounted for in another fund.

HUD Grant fund - This fund accounts for revenue sources provided by US Housing Urban Development Department for the development of viable urban communities, decent housing, suitable living environment, 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.

Workforce Investment Act Grant fund ("WIA") - This fund accounts for revenue sources provided by "Consejo Desarrollo Ocupacional y Recursos Humanos" (pass-through agency of 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 U. S. companies find skilled workers.

Health and Human Services Grant 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.

Debt service fund - This fund accounts for the accumulation of resources predominantly for, and the payment of, principal and interest on long-term general obligation debt of governmental funds.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash, cash equivalents, and cash with fiscal agent

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department ("PRTD") or in instruments of the Government Development Bank for Puerto Rico ("GDB"). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash with fiscal agent in the general fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

Cash and cash equivalents of the component units are maintained in separate bank accounts, from those of the primary government, in their own names.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

Restricted assets

Funds set aside by the governmental funds for the payment and guarantee of notes and interest payable, bonds and other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law.

Receivables

Accounts receivable are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables are resources provided by governmental entities that are deemed fully collectible. The accounts receivable from nongovernmental customers are net of estimated uncollectible amounts.

Interfund receivables and payables

The Municipality has the following types of transactions among funds:

Operating transfers – Operating transfers are legally required transfers that are reported when incurred as operations transfer-in by the recipient fund and as operating transfer-out by the disbursing fund. The operating transfers are: (1) indirect cost reimbursement paid by federal grants to general fund and (2) debt service's interest revenue provided for operational activities of the general fund as established by state laws, principally.

Intra-entity transactions - Transfers between the funds of the primary government are reported as interfund transfer with receivables and payables presented as amounts due to and due from other funds.

Inventories

Generally, inventories are valued at cost and predominantly on the first-in, first-out method. Governmental fund inventories are recorded as expenditures when purchased rather than capitalized as an asset.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Capital assets

Capital assets, which include land, land improvements, construction in progress, buildings, building improvements, machinery, equipment, and infrastructure (which is normally real property and of value only to **the Municipality**, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental activities and component units columns in the statement of net assets.

Capital assets purchased or acquired are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at fair market value at the time of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance that do not add value to the assets or materially extend assets lives, are expensed as incurred. **The Municipality** defines capital assets as assets, which have an initial, individual cost of \$25 or more at the date of acquisition. Such amount has been determined by the Basic Standards of the Municipalities of Puerto Rico, which is the guide that regulates the Municipalities. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Major outlays for capital assets and improvements are capitalized as projects are constructed in governmental-wide financial statements.

The Municipality reviews the carrying value of its long-lived capital assets for possible impairment whenever events or changes in circumstances indicated that the carrying amount of the assets might not be recoverable. Any long-lived capital assets held for disposal are reported at the lower of their carrying amounts or fair value (donated assets). **The Municipality** has not identified any significant impairment of its long-lived assets as of June 30, 2007.

Depreciation expense is recorded in the governmental-wide financial statements, as well as the component units' financial statements. Depreciation in capital assets is calculated on the straight-line method over the following assets' estimated useful life:

	Useful Life
Buildings and building improvements	20-50 years
Land improvements	20-30 years
Machinery and equipment	5-20 years
Infrastructure	20-50 years

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

Works of art and historical treasures

At June 30, 2007, **the Municipality** has the following work of art, historical treasures, and similar assets:

- Centro Ceremonial Indígena de Tibes (Period 1200 AC to 1493 AC) - collections have skeletons, charms, "petroglifos" and ceremonial park of Taino Indian culture.
- Museo Antiguo Parque de Bombas (1882) - collections have pictures, fire equipments, fireman car and embellishing.
- Museo Castillo Serrallés (1930-1934) - collections have puertorrican and international decorative arts, Serrallés' Family objects, documents and machinery of Mercedita Sugar Plantation.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

- Panteón Nacional Ramón Baldorioty de Castro (1847-2005) - collections show funeral arts of Century XIX, 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 1200 AG to end Century XIX) - collections have documents, pictures, and works of art that show the evolution of City.
- Museo Pancho Coimbre (Beginning Century XX) - collections have memories of baseball player Francisco "Pancho" Coimbre, sport equipment, pictures and gallery of "immortals" of Ponce's Sport.
- City Hall (Century XVIII to XXI) - collections have Ponce's former mayors paintings in oil colors, work arts of Miguel Pou, Azaustre, Manuel Sierra and Julio Ojeda, busts of Juan Ponce de León and Eugenio María de Hostos.
- Public Art (1923-2004) - collections have sculptures installed in Public Parks, avenues and public buildings.

These collections constitute culture patrimony of **the Municipality** acquired by purchase and/or donations. **The Municipality** take the option not capitalized your work of arts and historical treasures by the patrimony value for future generations.

Deferred revenues

Deferred revenue at the governmental fund level arises when potential revenue does not meet neither the "measurable" or the "available" criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before **the Municipality** has a legal claim to them, as when grant moneys are received prior incurring the qualifying expenditures.

Reservations of fund balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use. **The Municipality** has the following reservations of fund balance:

Encumbrances - Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

Federal grants - Represent the reservations of amounts available for specific use under federal grant programs.

Special purpose - Represent the reservations of amounts available for specific purpose provided by governmental entities and others.

Debt service - Represents net assets available to finance future debt service payments.

Capital project - Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to **the Municipality** and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("the CRIM") for the year ended June 30, 2007 amounted to approximately \$2.28 millions. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$2.09 millions for workers compensation insurance covering all municipal employees. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Long-term debt

The liabilities reported in the governmental-wide financial statements include **the Municipality's** public improvements bonds, general and special obligations bonds, general and special refunding obligations bonds, rent bond, loan guarantee assistance notes, and long-term liabilities including: property tax advances, LIMS refinancing debt, interest due for accounts sold, legal claims and compensated absences. Long-term obligations financed by component units are recorded as liabilities in the discretely presented component unit's column.

Compensated absences

The vacation policy of **the Municipality** generally provides for the accumulation of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid leave at the current rate, if the employee has at least 10 years of service with **the Municipality**.

On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing **the Municipality** to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid on or before March 31. Excess of vacations can be paid after July 1 of every fiscal year.

Post employment benefits

Pursuant to the following Acts: no. 207 of August 13, 1995, no. 40 of June 13, 2001 and no. 157 of June 27, 2003, **the Municipality** is required to cover annually the 3% increase (cost of living allowance) in the retirement plan of its retirees employees. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for **the Municipality**. For the fiscal year ended June 30, 2007, post employment benefits for 554 retirees amounted to \$359,308. These benefits are recorded as expenditures when paid in the general fund.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications to component units' amounts

Certain reclassifications have been made to the amounts presented in the component units' financial statements to conform them to the presentation used in **the Municipality's** basic financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Future adoption of accounting pronouncements

The Governmental Accounting Standards Board has issued the following statement that **the Municipality** or its component units have not yet adopted:

Statement Number	Statement Name	Adoption Required in Fiscal Year
45	Accounting and Financial Reporting for Employers for Post-employment Benefits Other than Pensions	2007-08
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2008-09
50	Pension Disclosures-an amendment of GASB no. 25 and no. 27	2007-08
51	Accounting and Reporting for Intangible Assets	2009-10

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

2. 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 GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of 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 and the debt service funds.

Revenues and Expenditures - Budget and actual (Budgetary basis), accordingly, include the operations of the general fund and the payment of general obligations bonds in debt service fund. The amounts approved under other governmental funds were excluded since they are received and expended over a period of time, which generally exceeds the current year.

For budgetary purposes, encumbrance accounting is used. The encumbrances (that is, purchase orders, contracts) are considered expenditures when commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations within GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. At the end of the year, the unencumbered balance of any appropriations of the general fund will lapse immediately. Appropriations, other than in general fund, 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. As of June 30, 2007, this commitment amounted to approximately \$6,275,408.

The annual budget as presented in the accompanying statements of revenues and expenditures - budget and actual for general and debt service funds (budgetary basis) is the budget ordinance at June 30, 2007 representing the original budget and the amended budget.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY. Continued

Budget /GAAP reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity, timing, and basis differences in the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2007 is presented below for the general fund:

	General Fund
Excess of revenues over expenditures - budget basis	<u>\$ 4,379,793</u>
Entity differences:	
Non-budgeted revenues	17,299,752
Non-budgeted expenses	(33,384,010)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(117,480)
Current year encumbrances recorded as expenditures for budget purposes	<u>1,384,150</u>
Basis of accounting differences - net change	<u>(14,817,588)</u>
Deficiency of revenues over expenditures - GAAP basis	<u>\$ (10,437,795)</u>

Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budget indicating: (1) interest, amortization and retirement public debt, (2) statutory obligations, (3) judicial claims payments, (4) any amount to cover prior years deficit, (5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtain of additional special property tax (municipal) collections. The Municipality's management shows budgetary financial statements in general and debt service funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for the debt service fund.

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$210 millions differences are as follows:

Reconciliation liabilities recorded in basic financial statements vs. fund financial statements.

General and special obligations	\$ 121,092,000
Property tax advances	67,861,009
Loan guarantee notes	5,705,000
Claims and judgments	230,000
Compensated absences	12,323,408
LIMS refinancing debts	2,002,830
Interest due for accounts sold - CRIM	<u>2,960,523</u>
	<u>\$ 212,174,770</u>

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, Continued

Reconciliation of invested in capital assets, net of related debt:

Total capital assets, net of accumulated depreciation	<u>\$ 273,687,283</u>
Deduct:	
Bonds payable:	
Ordinance (Series 1996-97)	4,360,000
Ordinance (Series 1998-99)	1,605,000
Ordinance (Series 2000-01)	27,544,326
Ordinance (Series 2003-04)	45,728,506
Ordinance (Series 2004-05)	10,535,000
Ordinance (Series 2006-07)	10,565,000
Section 108 Loan Guarantee	<u>5,705,000</u>
	<u>106,042,832</u>
Invested in capital assets, net of related debt	<u>\$ 167,644,451</u>

4. CASH AND CASH EQUIVALENTS

The Municipality is authorized to deposit its cash and cash equivalents only in institutions approved by the Commonwealth of Puerto Rico Treasury Department and such deposits should be kept in separate accounts in the name of the Municipality. Such financial institutions should maintain collateral for the cash deposited in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) as established by Law No. 69 of August 14, 1991 "Law regulating the deposits of public funds and to provide about security". The Secretary of the Treasury Department of the Commonwealth holds all securities pledged as collateral. The cash and cash equivalents deposited in Governmental Development Bank are excluded of the requirements of this Law and the Municipality does not have a deposit policy about these deposits. Cash and cash equivalents consist of interest-bearing accounts, non-interest bearing accounts and certificates of deposits. The carrying amount of deposits with financial institutions at June 30, 2007 consists of the following:

	<u>Carrying Amount</u>		<u>Total</u>	<u>Bank Balance</u>
	<u>Unrestricted</u>	<u>Restricted</u>		
Commercial banks	\$ 19,569,153	\$ 27,651,954	\$ 47,221,107	\$ 52,024,034
Governmental Development Bank		32,028,858	35,028,858	35,303,155
Component units' banks	<u>2,842,508</u>	<u>100,000</u>	<u>2,942,508</u>	<u>3,002,559</u>
Total	<u>\$ 22,411,661</u>	<u>\$ 59,780,812</u>	<u>\$ 85,192,473</u>	<u>\$ 90,329,748</u>

Custodial credit risk is the risk that in the event of bank failure, the Municipality's deposit might not be recovered. At year-end, the Municipality's bank balance of deposits in commercial banks amounting of \$90.3 millions was covered by FDIC and by collateral held by the Commonwealth's agent in the Commonwealth's name.

5. 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 8.33% for real property and 6.33% 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	1.50%	1.50%
Discounts made by state to taxpayer	<u>(.20%)</u>	<u>(.20%)</u>
	<u>8.33%</u>	<u>6.33%</u>

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**.

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, 2007, presented as non current liabilities in the government-wide financial statements amounted to approximately \$67.8 millions of which \$1,722,500 pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2007. See information regarding property tax claim made by **the Municipality** to CRIM in Note 16.

5. PROPERTY TAXES, Continued

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.

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. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the central government to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999.

6. MUNICIPAL LICENSE TAX

Municipal license tax is recorded in the fiscal year in which payment is due and, accordingly, represents taxes, which are due and uncollected at June 30, 2007. The annual Municipal license tax is determined based on the gross income of all commerce and industrial organizations that have operations in **the Municipality**, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in **the Municipality** are as follows:

- Financial institutions - 1.50% of gross revenues
- Other organizations - .30% for annual sales up to \$500,000 and, .50% over such volume

7. SALES TAX

During the fiscal year ended June 30, 2006, the Municipal Legislature approved the Ordinance no. 76, series 2005-06 establishing a citizenship contribution of 1%, known as "León tax", over all transactions of sales of goods and services made on Ponce's boundaries. The contribution was effective in July 1, 2006. According to the Ordinance, these new resources will be principally used in the following activities; improvements in health services, to cover the increasing in solid waste disposal costs, public construction, security, social welfare and maintenance of culture and sport facilities. On August 16, 2006, the Municipal Legislature approved the Ordinance no. 12, series 2006-07 increasing the citizenship contribution to 1.5% effective November 15, 2006. Pursuant to the provisions of the Law number 80 of July, 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

8. INTERFUND TRANSACTIONS

Interfund transactions, which are expected to be repaid on or before June 30, 2009, are as follows:

	Amount	Purpose
HUD grants:		
Section 8 - Voucher	\$ 1,013,966	Reimbursable expenditures
Emergency Shelter	5,029	Reimbursable expenditures
CDBG	295,990	Reimbursable expenditures
UDAG	20,277	Reimbursable expenditures
Other	<u>1,166</u>	Reimbursable expenditures
Total HUD grants	<u>1,336,428</u>	
HHS grants:		
Head Start	288,480	Reimbursable expenditures
Ryan White	30,722	Reimbursable expenditures
Child Care	<u>55</u>	Reimbursable expenditures
Total HHS grants	<u>319,257</u>	
Other		
FEMA	148	Reimbursable expenditures
Others	<u>77,960</u>	Reimbursable expenditures
Total other	<u>78,108</u>	
 Total advances between funds	 <u>\$ 1,733,793</u>	

Interfund transfers between the general fund and debt service fund of approximately \$2.13 represent interest income received from the additional special property tax bank account. Interfund transfers from WIA Fund and HUD Fund to General Fund of approximately \$256,170 represent indirect cost recovery. Interfund transfers from Others to General fund of approximately \$750,000 represent operational transfer.

9. ACCOUNTS RECEIVABLE - NET OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Accounts receivable at June 30, 2007, consist of the following:

	Gross Amount	Allowance	Net Amount
Municipal license tax	\$ <u>177,591</u>	\$ <u>5,173</u>	\$ <u>172,418</u>
Others	\$ <u>653,433</u>	\$ <u>18,066</u>	\$ <u>635,367</u>

10. DUE FROM GOVERNMENT

Due from government represents grants and contributions due from local and federal governments:

Local governments:

Municipal Revenue Collection Center (CRIM)	\$ 176,138
Council of Occupational Development and Human Resources	1,717,056
Governmental Development Bank	14,062
Department of Natural Resources	2,360,573
Department of Education	130,450
Rural Development Corp.	402,134
Other	<u>158</u>
Total due from local governments	<u>\$ 4,800,571</u>

Federal governments:

Other - FEMA	\$ 266,506
Other funds - Homeland Security	6,095
Other funds - USDA	131,266
Other funds - El Tuque Satellite Center	4,609
Other funds - Bulletproof Best Partnership	27,346
HHS Funds - Ryan White	150,395
HUD - CDBG	3,097,378
HUD - HOME	330,395
HUD - UDAG	61,074
HUD - Emergency Shelter	<u>46,181</u>
Total due from federal governments	<u>\$ 4,121,245</u>

11. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

Primary Government Governmental Activities	Balance June 30, 2006	Increase	Decrease	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 47,465,561			\$ 47,465,561
Construction in progress	<u>46,165,762</u>	<u>\$ 8,412,997</u>	<u>\$ 28,244,602</u>	<u>26,334,157</u>
Total capital assets, not being depreciated	<u>93,631,323</u>	<u>8,412,997</u>	<u>28,244,602</u>	<u>73,799,718</u>
Capital assets, being depreciated:				
Buildings and building improvements	68,225,105	1,487,725	897,440	68,815,390
Land improvements	2,627,172	28,376,239		31,003,411
Machinery and equipment	40,661,195	1,176,220	311,547	41,525,868
Infrastructure	<u>105,441,058</u>	<u>9,857,634</u>		<u>115,298,692</u>
Total capital assets, being depreciated	<u>216,954,530</u>	<u>40,897,818</u>	<u>1,208,987</u>	<u>256,643,361</u>
Less accumulated depreciation for:				
Buildings and building improvements	8,654,503	635,169	136,563	9,153,109
Land improvements	584,511	47,289		631,800
Machinery and equipment	22,626,342	2,595,789	474,343	24,747,788
Infrastructure	<u>20,317,479</u>	<u>1,905,620</u>		<u>22,223,099</u>
Total accumulated depreciation	<u>52,182,835</u>	<u>5,183,867</u>	<u>610,906</u>	<u>56,755,796</u>
Total capital assets, being depreciated, net	<u>164,771,695</u>	<u>35,713,951</u>	<u>598,081</u>	<u>199,887,565</u>
Governmental activities capital assets, net	<u>\$ 258,403,018</u>	<u>\$ 44,126,948</u>	<u>\$ 28,842,683</u>	<u>\$ 273,687,283</u>

The Legislature Assembly of the Commonwealth of Puerto Rico approved the Law No. 537 of September 30, 2004. "Municipalización de los Estadios de Ponce, Caguas, Mayagüez y Arecibo". This Law establishes, among other things, that the Recreational and Sports Department should transfer the ownership title of the Auditorium Pachín Vicéns and the Paquito Montaner Stadium to **the Municipality**. The facilities were transferred in October 5, 2005 at its fair market value. The Ordinance No. 10 (2005-06) authorized the Mayor to realize this process.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007 were as follows:

Funds	Vendors	Salaries and Benefits	Total
General fund	\$ 12,596,550	\$ 1,136,093	\$ 13,732,643
HUD programs	1,166,115	31,493	1,197,608
WIA programs	43,375	252,873	296,248
HHS programs	192,417	245,747	438,164
Other governmental funds	<u>352,236</u>	<u>-</u>	<u>352,236</u>
Total on balance sheet	<u>\$ 14,350,693</u>	<u>\$ 1,666,206</u>	16,016,899
Plus obligation paid with CAE funds			<u>4,505,000</u>
Total on statement of net assets			<u>\$ 20,521,899</u>

13. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2007 was as follows:

ASUME	\$ 278,873
Internal revenue service	26,844
Retirement System of the Commonwealth of Puerto Rico	830,376
Puerto Rico Electric Power Authority	2,213,587
Puerto Rico Public Building Authority	2,035,488
CRIM	1,722,500
Puerto Rico Water and Sewer Authority	647,664
U.S. Housing Urban Development Department	<u>1,022,193</u>
Total	<u>\$ 8,777,525</u>

14. INTERGOVERNMENTAL REVENUES

Following is a detail of intergovernmental revenues:

Federal agencies:

U.S. Health and Human - Ryan White	\$ 1,966,305
U.S. Health and Human -Head Start	11,648,027
U.S. Department of Labor - Workforce Investment Act	3,546,446
U.S. Dept. of Housing Urban Development - Emergency Shelter	230,571
U.S. Dept. of Housing Urban Development - CDBG-Entitlement	5,319,197
U.S. Dept. of Housing Urban Development -Section 8 Choice Voucher	7,694,071
U.S. Dept. of Housing Urban Development -Section 8 - Moderate I and II	381,131
U.S. Dept. of Housing Urban Development -HOME Investment Partnership	2,573,045
U.S. FEMA	746,563
U.S. Department of Justice - Local Law Enforcement Grant	27,344
U.S. Department of Agriculture - USDA	918,560
U.S. Department of Housing Urban Development	197,178
U.S. Department of Justice - Cops Interoperability Community Grant	118,752
Others	<u>4,002</u>

Total federal agencies \$ 35,371,192

State agencies:

Communities Rehabilitations Projects - Special Communities Trust	\$ 4,470,121
Puerto Rico Department of Natural Resources	2,360,573
Puerto Rico Electric Power Authority	8,108,861
Subsidy and Lottery of Puerto Rico - CRIM	1,405,996
Reimbursement from the Commonwealth of Puerto Rico of christmas bonus expenditure	1,327,213

Rural Development Projects 402,647

Total state agencies \$ 18,075,411

15. DEFERRED REVENUES

Municipal license tax

The deferred revenues of approximately \$16.5 millions in the general fund related to municipal license tax collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08.

Federal government

The deferred revenues presented as federal and local government represent the portion of federal grants approved and/or received for which all applicable eligibility requirements are not met as established by GASB Statement No. 33. These were related to the following federal programs/grants:

Program/Grant description

USDA	\$ 272,904
Home Investment Partnership Recaptures	296,055
UDAG	94,547
Child care	50
Municipal bank	13,578
Other grants	<u>118,560</u>
Total	<u>\$ 795,694</u>

16. LONG-TERM DEBT

Bonds outstanding at June 30, 2007 consist of:

1997 general obligation bond due in annual installments of \$410,000 to \$1,220,000, through July 1, 2011; with interest ranging from 6.75% to 5.94%	\$ 4,360,000
1999 general obligation bond due in annual installments of \$115,000 to \$320,000, through July 1, 2013; with interest ranging from 6.00% to 6.11 %	1,605,000
2004 general obligation bond due in annual installments of \$435,000 to \$2,755,000, through July 1, 2025; with interest ranging from 6.13% to 5.60%	27,890,000
2004 general obligation bond due in annual installments of \$1,115,000 to \$1,740,000, through July 1, 2014; with interest ranging from 4.37% to 7.00%	10,535,000
2004 general refunding obligation bond due in annual installments of \$200,000 to \$750,000, through July 1, 2028; with interest ranging from 2.25% to 5.55%	9,770,000
2004 special refunding obligation bond due in annual installments of \$250,000 to \$950,000, through July 1, 2028; with interest ranging from 2.25% to 5.55%	12,115,000
2004 special refunding obligation bond due in annual installments of \$240,000 to \$995,000, through July 1, 2023; with interest ranging from 2.45% to 5.50%	10,805,000
2004 general obligation bond due in annual installments of \$325,000 to \$1,250,000, through July 1, 2023; with interest ranging from 1.56% to 6.00%	14,395,000
2004 special obligation bond due in annual installments of \$85,000 to \$335,000, through July 1, 2028; with interest ranging from 2.45% to 5.60%	4,160,000
2004 special obligation bond due in annual installments of \$150,000 to \$575,000, through July 1, 2028; with interest ranging from 2.45% to 5.60%	7,350,000
2006 general obligation bond due in annual installments of \$204,000 to \$963,000, through July 1, 2028; with interest ranging from 5.57% to 6.50%	10,565,000
2006 general obligation bond due in annual installments of \$146,000 to \$948,000, through July 1, 2028; with interest ranging from 5.57% to 6.50%	<u>7,542,000</u>
Total outstanding bonds	<u>\$ 121,092,000</u>

16. LONG-TERM DEBT, Continued

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

	Principal	Interest
2007 - 2008	\$ 5,420,000	\$ 6,821,979
2008 - 2009	5,810,000	6,631,022
2009 - 2010	6,262,000	6,239,410
2010 - 2011	6,709,000	5,887,331
2011 - 2012	5,864,000	5,504,635
2012 - 2017	28,553,000	22,353,152
2017 - 2022	33,068,000	13,995,183
2022 - 2027	23,777,000	5,146,848
2027 - 2028	<u>5,629,000</u>	<u>568,818</u>
	<u>\$ 121,092,000</u>	<u>\$ 73,148,378</u>

Loan guarantee assistance notes (LGA)

These notes are payable in annual aggregate principal installments of \$540,000 to \$940,000, plus interest rates which fluctuates from 8.04% to 8.19%. These notes are guaranteed by the federal government through the Loan Guarantee Assistance Program and will be repaid from future appropriations to **the Municipality's** Community Development Block Grant for Puerto Rico program. The balance at June 30, 2007 is \$5,705,000.

Annual maturity requirements for the loan guarantee assistance notes are as follows:

	Principal	Interest
2007 - 2008	\$ 920,000	\$ 309,958
2008 - 2009	940,000	263,733
2009 - 2010	540,000	223,900
2010 - 2011	540,000	191,446
2011 - 2012	545,000	158,298
2012 - 2017	<u>2,220,000</u>	<u>288,688</u>
	<u>\$ 5,705,000</u>	<u>\$ 1,436,023</u>

The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within **the Municipality**, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Total property assessed value at June 30, 2007 amounted to approximately \$1.1 billions. Long-term debt, except for the bonds payable and the loan guarantee assistance notes, is paid with unrestricted funds.

16. LONG-TERM DEBT, Continued

Long-term debt activities for the year ended June 30, 2007 was as follows:

Primary Government Governmental Activities	Balance at June 30, 2006	Payment Principal	Interest	Increase (Decrease)	Balance at June 30, 2007	Due within One Year
Public improvements bonds	\$ 390,000	\$ 390,000	\$ 25,011			
General obligation bonds	62,355,000	3,570,000	4,050,936	\$ 18,107,000	\$ 76,892,000	\$ 4,150,000
General refunding obligation bonds	10,015,000	245,000	523,297		9,770,000	255,000
Special refunding obligations bonds	23,570,000	650,000	1,197,644		22,920,000	715,000
Special obligation bonds	11,800,000	290,000	626,161		11,510,000	300,000
Loan guarantee assistance (LGA) notes	6,915,000	1,210,000	358,318		5,705,000	920,000
Rent bond (a)	<u>40,000,000</u>		<u>1,788,494</u>	<u>(40,000,000)</u>		
Subtotal	<u>155,045,000</u>	<u>6,355,000</u>	<u>8,569,861</u>	<u>(21,893,000)</u>	<u>126,797,000</u>	<u>6,340,000</u>
Property tax advance - CRIM	64,440,073			3,420,936	67,861,009	896,331
LIMS Refinancing debt - CRIM	2,355,287	352,457	155,945		2,002,830	508,402
Interest due for accounts sold - CRIM	3,181,746	221,223			2,960,523	221,223
Claims and judgment	2,257,269	353,521		(1,673,748)	230,000	75,000
Compensated absences	<u>15,597,013</u>	<u>1,800,878</u>		<u>(1,472,727)</u>	<u>12,323,408</u>	<u>4,167,031</u>
Subtotal	<u>87,831,388</u>	<u>2,728,079</u>	<u>155,945</u>	<u>274,461</u>	<u>85,377,770</u>	<u>5,867,987</u>
Total long-term debt	<u>\$ 242,876,388</u>	<u>\$ 9,083,079</u>	<u>\$ 8,725,806</u>	<u>\$(21,618,539)</u>	<u>\$ 212,174,770</u>	<u>\$ 12,207,987</u>

(a) At September 15, 2006, the Port of the Americas Authority assumed the rent obligation bond for the amount of \$40 millions. This money was used in the improvements made in various piers of the Port of Ponce.

17. RETIREMENT PLAN

Plan description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The ERS was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

ERS covers all regular full time employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, and Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

17. RETIREMENT PLAN, Continued

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity shall be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining **the Municipality** on or after January 2000 will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Contribution requirements

Commonwealth legislation requires employees to contribute, under a coordination plan, 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 and under a supplementation plan, only available to Police, Firefighters and Mayors, 8.275% of gross salary. **The Municipality's** contributions are 9.275% of gross salary. Law establishes contributions' requirements. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2007 was approximately \$3.8 millions. **The Municipality** total payroll for all employees was approximately \$50.4 millions. For the two preceding fiscal years, **the Municipality** contributed approximately \$3.8 millions for each year, which represented 100% of required contributions.

Additional information of ERS is presented in the most recent actuarial valuation report for the year ended June 30, 2003, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

18. RISK MANAGEMENT

The Risk Management Division (RMD) of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the RMD compiles the information of all property owned and its respective market value. After evaluating this information, the RMD submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

19. COMMITMENTS

Primary Government

Operating lease

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, 2007, amounted to approximately \$1.3 millions. 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.

Construction

The Municipality had commitments at June 30, 2007 of approximately \$27.8 millions for the construction, improvements, or renovation of several municipal facilities.

Component unit

Operating lease

The Port of Ponce is the lessor of certain dock and warehousing facilities. Future minimum rentals receivable under such leases at June 30, 2007 are as follows:

Fiscal year ending June 30,	
2008	\$ 949,209
2009	949,209
2010	949,209
2011	949,209
2012	<u>949,209</u>
Total	<u>\$ 4,746,045</u>

20. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER

Contingencies and claims and judgments against the Municipality

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 the legal counsel, that the probable claims against the Municipality not covered by insurance are by the amount of \$2.3 millions at June 30, 2007. In addition, the management's opinion based on the advice of the legal counsel, that the possible claims against the Municipality not covered by insurance are estimated in the amount of \$230,000 at June 30, 2007 and will not affect the financial condition of the Municipality.

20. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS AND OTHER, Continued

The Municipality participates in a number of federal financial assistance programs, funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133" for the year ended June 30, 2005, and 2006 disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls.

If expenditures are disallowed due to noncompliance with grant programs regulations, **the Municipality** may be required to reimburse the grantor. Management believes that **the Municipality** will be able to comply with the terms of corrective action plans that may be requested by the federal grantors. Although, such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

Primary government litigations and claims in favor of the Municipality

In June 1996, the Ponce Superior Court of the Puerto Rico Court of First Instance entered judgment in favor of **the Municipality** against several government agencies and the Central Government. Through this judgment, the Court ordered the defendants to construct about 54 projects, which management estimates cost approximately \$160 millions, which were included in the Municipal Land Use Plan of **the Municipality**, and also ordered the defendants to pay **the Municipality** damages in the amount of \$16.5 millions. The parties involved were notified of the judgment on June 26, 1996 and from that date, the amount of the judgment earns interest at 5% annually. All defendants to the Circuit Court appealed the judgment and on December 2, 1997 the Circuit Court of Appeals upheld the judgment entered by the Ponce Superior Court. However, the Court modified the damage award and determined that the precise amount of damages to be granted to **the Municipality** should be determined once the projects covered by the judgment are finished. **The Municipality** was denied a reconsideration of this determination and appealed to the Supreme Court in April 1998 with the purpose of reinstating the damage award. In December 2000, the Supreme Court entered a judgment in favor of **the Municipality**. Since then, management has been negotiating with the Central Government a work schedule for the realization of the project and the collection of the damages. During the fiscal year ended June 30, 2006, **the Municipality** received approximately \$6.6 millions related to this case.

21. CLOSURE AND POST CLOSURE CARE COSTS AND LANDFILL OBLIGATIONS

The Municipality owns a landfill, which is used by several municipalities including Ponce and administered by BFI Industries, the landfill administrator, an independent private entity, under an agreement with **the Municipality**. **The Municipality** is entitled, under the agreement with the administrator, to certain revenues, principally royalties, resulting from the use of the landfill. For the year ended June 30, 2007, revenues earned under the agreement amounted to \$2.6 millions and are presented in the accompanying statement of changes in net assets and statement of revenue, expenditures and changes in fund balances.

State and federal laws and regulations require **the Municipality** to place a final cover on **the Municipality's** landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. 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, 2007, the estimated remaining life was approximately 7.5 years.

21. CLOSURE AND POST CLOSURE CARE COSTS AND LANDFILL OBLIGATIONS, Continued

The Municipality formalized an agreement with BFI of Ponce Inc. for the gather, transportation and disposal of municipal waste with period of eight (8) years from July 1, 2001 to June 30, 2009. Under this agreement, BFI assume all related costs in the use of the landfill, activities and resources to complete the services contracted.

The agreement includes the extension and amendment of lease of land common and structures known as "Facilidades del Garage El Tuque" for a period of five (5) years from July 1, 2004 to June 30, 2009. In addition, the contractor is liable to comply with laws, rules, municipal ordinances, regulations of JCA (Junta de Calidad Ambiental) and EPA (Agencia Federal de Protección Ambiental). The charge for service amount is \$6.35 by residential unit and payable monthly to the contractor, and services for public housing are be free if charges. Under this contract, the Municipality is free of liability for closure and post closure costs; therefore, an escrow account is not required.

22. SUBSEQUENT EVENTS

Pursuant to the provisions of the Law number 80 of July, 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

23. RESTATEMENT OF 2006 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2007, the Municipality noted that certain liabilities had been overstated or understated as of June 30, 2006 and accordingly, the net assets at June 30, 2006, as previously reported, has been decreased by \$355,268. A summary of the effects of the restatements in the fiscal year 2005-06 financial statements is as follows:

23 RESTATEMENT OF 2006 FINANCIAL STATEMENTS, Continued

	<u>General</u>	<u>WIA</u>	<u>HUD</u>	<u>Others</u>	<u>Total</u>
Corrections in accounting transactions	\$ (169,173)	\$ 671,832	\$ 20,919		\$ 523,578
Amount due to Sistema de Retiro	(710,593)		(162,305)	\$ 35,045	(710,593)
Change in accounting principles (GASBS no. 33)	(40,993)				(168,253)
Net effect in fund balance (decrease) increase	<u>\$ (920,759)</u>	<u>\$ 671,832</u>	<u>\$ (141,386)</u>	<u>\$ 35,045</u>	<u>\$ (355,268)</u>



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

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

We have audited the financial statements of **the Municipality of Ponce (the Municipality)** as of and for the year ended June 30, 2007, and have issued our report thereon dated December 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

In planning and performing our audit, we considered **the Municipality's** internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statements, but not the purpose of expressing an opinion on the effectiveness of **the Municipality's** internal control over financial reporting. Accordingly, we did not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses, as items 2007-02 (FS), 2007-04 (FS), and 2007-05 (FS), to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-02 (FS), 2007-04 (FS), and 2007-05 (FS) to be material weaknesses.

Compliance and other matters

As part of obtaining reasonable assurance about whether the **Municipality'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 responses, as items 2007-01 (FS), 2007-02 (FS), 2007-03 (FS), 2007-04 (FS), and 2007-05 (FS).

This report is intended solely for the information and use of the following state agencies of the Commonwealth of Puerto Rico: Office of the Commissioner for Municipal Affairs, Council of Occupational Development and Human Resources, Office of the Comptroller, Governmental Development Bank, Justice Department; audit committee, management and the federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 20, 2007

License number 6
Ponce, Puerto Rico



2279784





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Partners:

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of **Municipality of Ponce (the Municipality)** with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. **The Municipality's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of **the Municipality's** management. Our responsibility is to express an opinion on **the Municipality's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **the Municipality's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on **the Municipality's** compliance with those requirements.

As described in items 2007-01 (FA) thru 2007-23 (FA) in the accompanying schedule of findings and questioned costs, **the Municipality** did not comply with certain requirements regarding to allowable costs / cost principles, cash management, Davis Bacon Act, eligibility, period of availability of federal funds, procurement, suspension and debarment, reporting, sub-recipient monitoring, matching, level of effort, earmarking and special test that are applicable to: Head Start (CFDA No. 93.600), HIV Emergency Relief Project Grant (CFDA No. 93.914), Community Development Block Grant/Entitlement (CFDA No. 14.218), HOME Investment Partnership Program (CFDA No. 14.239), and Section 8 Housing Choice Voucher (CFDA No. 14.871). Compliance with such requirements is necessary, in our opinion, for **the Municipality** to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, **Municipality of Ponce** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal control over compliance

The management of **the Municipality** is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered **the Municipality's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **the Municipality's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in **the Municipality's** internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as items 2007-01 (FA), 2007-02 (FA), 2007-03 (FA), 2007-04 (FA), 2007-05 (FA), 2007-06 (FA), 2007-07 (FA), 2007-08 (FA), 2007-09 (FA), 2007-10 (FA), 2007-11 (FA), 2007-12 (FA), 2007-13 (FA), 2007-14 (FA), 2007-15 (FA), 2007-16 (FA), 2007-17 (FA), 2007-18 (FA), 2007-19 (FA), 2007-20 (FA), 2007-21 (FA), 2007-22 (FA), and 2007-23 (FA) to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost, we consider items 2007-01 (FA), 2007-03 (FA), 2007-04 (FA), 2007-05 (FA), 2007-07 (FA), 2007-08 (FA), 2007-10 (FA), 2007-11 (FA), 2007-12 (FA), 2007-13 (FA), 2007-15 (FA), 2007-16 (FA), 2007-17 (FA), 2007-18 (FA), 2007-19 (FA), 2004-20 (FA), 2007-21 (FA), 2007-22 (FA) and 2007-23 (FA) to be material weaknesses.

The Municipality's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit **the Municipality's** response and accordingly, we express no opinion on it.

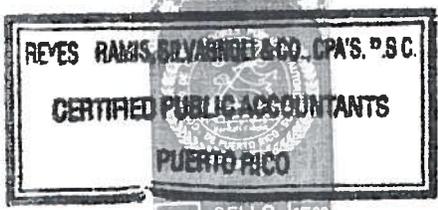
This report is intended solely for the information and use of the following state agencies of the Commonwealth of Puerto Rico: Office of the Commissioner for Municipal Affairs, Council of Occupational Development and Human Resources, Office of the Comptroller, Governmental Development Bank, Justice Department; audit committee, management and the federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 14, 2008

License number 6
Ponce, Puerto Rico

Reyes-Ramirez, Sigfrido & Co.

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COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor/Program Title</u>	<u>Federal CDFA Number</u>	<u>Pass through Grantor Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
<u>Pass through program</u> - Commonwealth of Puerto Rico			
Education Department – Child and Adult Care Food Program	10.558	CCC-049	\$ <u>918,560</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
<u>Direct programs:</u>			
Community Development Block Grant (CDBG) Program, Entitlement Grants	14.218		4,564,880
Emergency Shelter Grants Program	14.231		230,564
HOME Investment Partnerships Program	14.239		2,733,224
Section 8 Housing Choice Voucher	14.871		9,212,343
Section 8 – Project – Based Cluster:			
Lower Income Housing Assistance Programs:			
Section 8 – Moderate Rehabilitation I	14.856		157,495
Section 8 – Moderate Rehabilitation II	14.856		<u>196,489</u>
 Total U.S. Department of Housing and Urban Development			 <u>17,094,995</u>
U.S. DEPARTMENT OF LABOR:			
<u>Pass through programs:</u>			
Commonwealth of Puerto Rico Department of Labor (Council of Occupational Development and Human Resources):			
Workforce Investment Act Cluster:			
Adult Program	17.258		1,596,200
Youth Activities	17.259		1,462,274
Dislocated Workers	17.260		<u>804,940</u>
 Total U.S. Department of Labor			 <u>3,863,414</u>

See notes to schedule of expenditures of federal awards.

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS, CONTINUE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Federal Grantor/Program Title	Federal CDFA Number	Pass through Grantor Number	Federal Disbursements/Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
<u>Direct programs:</u>			
Administration for Children, Youth, and Families – Head Start	93.600		\$ 12,188,847
HIV Emergency Relief Project Grants	93.914		<u>1,966,305</u>
Total U.S. Department of Health and Human Services			<u>14,155,152</u>
U.S. DEPARTMENT OF JUSTICE:			
<u>Pass through programs</u> - Bulletproof Vest Partnership Grant	16.607		<u>54,699</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:			
<u>Pass through programs:</u>			
Commonwealth of Puerto Rico Department of Justice:			1,895
Citizen Corps Program (CERT)	97.053		<u>118,758</u>
Corps Int. Comm. Grant 2005	97.055		<u>120,653</u>
Total U.S. Department of Homeland Security			<u>\$ 36,207,473</u>
TOTAL			

See notes to schedule of expenditures of federal awards.

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of **the Municipality's** federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. BASIS OF PRESENTATION

The expenditures in the schedule are included in **the Municipality's** basic financial statements. The reconciliation of expenditures in the basic financial statements to the schedule of expenditures of federal awards is as follows:

	Expenditures
Total federal expenditures per schedule	<u>\$ 36,207,473</u>
Federal expenditures per basic financial statements included herein:	
Housing and Urban Development Grants	\$ 17,219,028
Less Loan Guarantee Notes	<u>(124,033)</u>
	17,094,995
Health and Human Services Grants	14,155,152
Workforce Investment Act Grants	3,863,414
Others	<u>1,093,912</u>
Total	<u>\$ 36,207,473</u>

3. SUBRECIPIENTS ENTITIES (FUNDS PROVIDED)

During the fiscal year ended June 30, 2007, **the Municipality** provided the following federal funds to sub recipient's entities:

HIV Emergency Relief Project Grants (93.914)	\$ 1,867,990
Community Development Block Grant (CDBG) - Program Entitlement Grants (14.218)	713,691
Emergency Shelter Grants Program (14.231)	<u>185,637</u>
Total	<u>\$ 2,767,318</u>

4. SECTION 108 LOAN PAYMENTS

For the fiscal year ended June 30, 2007, **the Municipality** paid the amount of \$1,568,318 in principal plus interest as a repayment of Section 108 Loan Guarantee Assistance Notes (LGA).

COMMONWEALTH OF PUERTO RICO – MUNICIPALITY OF PONCE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

PART I - SUMMARY OF AUDITORS' RESULTS

- 1) The independent auditors' report on the basic financial statements of **the Municipality of Ponce** expressed an unqualified opinion.
- 2) There were reportable conditions on internal controls over financial reporting.
- 3) Instances of material noncompliance with the financial statements of **the Municipality of Ponce** were disclosed during the audit.
- 4) There were reportable conditions on internal controls over major programs.
- 5) The independent auditors' report on compliance with requirements applicable to major federal award programs for **the Municipality** expressed a qualified opinion.
- 6) The audit disclosed findings required to be reported by OMB Circular A-133.
- 7) **The Municipality** major programs were:

1. Head Start Program	CFDA No. 93.600
2. HIV emergency Relief Project Grants	CFDA No. 93.914
3. Community Development Block Grant Program/Entitlement	CFDA No. 14.218
4. HOME Investment Partnership Program	CFDA No. 14.239
5. Section 8 Housing Choice Vouchers	CFDA No. 14.871
6. Work force investment Act Cluster:	
Adult Program	CFDA No. 17.258
Youth Activities	CFDA No. 17.259
Dislocated Workers	CFDA No. 17.260
- 8) A threshold of \$1,086,222 was used to distinguish between Types A and B programs as those terms are defined in OMB Circular A-133.
- 9) **The Municipality** did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II – FINANCIAL STATEMENTS FINDINGS SECTION

(All of the following findings are considered to be reportable conditions. Those that are material weaknesses (MW) are labeled as such.)

Finding number 2007-01 (FS) - Operating deficit of general fund

Condition

The Municipality's system of internal control relating to the budgeting function does not provide adequate financial resources in a deficit reserve account to amortize the accrued deficit shown in the general fund (Mayor's fund) as required by Law.

Criteria

Article 7.011, Section (b) of the Autonomous Municipalities Law of the Commonwealth of Puerto Rico of August 30, 1991 (Law), as amended, establishes, among other things, that; "Provides that accrued deficit in **the Municipality**, by public debt, will be amortized in a period of 40 years. The equivalent amortization amount will be established in an expense account in the annual budget known as accrued deficit which will be indicated in the chart of accounts".

Cause

This occurred because the prior years financial statements did not provide the exact amount applied to this fund in the general fund although other state and local funds are recorded in this governmental fund for financial statements purposes.

Effect

The reserve account budgeted is a control tool for future periods when the resources do not provide a surplus due to incremental costs for the year.

Recommendation

We recommend it evaluates the adequacy of the provision for deficit reserve accounts in the next budget for the amortization of public debt as recommend 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.

Finding number 2007-02 (FS) – Accounting management system (MW)

Condition

During our tests of the financial accounting system of **the Municipality**, we noted that the computerized system of accounting does not provide for adequate and effective financial information. As a consequence, the finance and budget department personnel should use spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation. For example, capital assets and long-term debt analysis were prepared using the spreadsheet software.

Criteria

Article 8.010, Sections (a) & (b) of the Law, indicates 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.

Finding number 2007-02 (FS) – Accounting management system (MW), Continue

Cause

The lack of integration of external accounting resource in the evaluation of the internal accounting system, caused that accounting personnel were not adequately trained to correct the information provided by the system.

Effect

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 financial trainings to the accountants in charge in the preparation of financial and statistical reports to ascertain that the accounting system comply with legal requirements and governmental accounting pronouncements.

Finding number 2007-03 (FS) - Municipal license tax revenues

Condition

We have performed audit procedures to forty-one (41) municipal license tax returns and noted that one (1) taxpayer files were not available for test.

Criteria

Chapter IX of the Basic Rules and Regulations for the Municipalities of Puerto Rico (Regulations), as reviewed, establishes the procedures to be followed by municipal officers in the collection and verification of this tax resource.

Cause

The lack of effective monitoring internal control procedures over tax return filed.

Effect

The ineffective evaluation of tax returns filed could cause that **the Municipality** does not collect the resources available by Law so that the Mayor can use the empowerment authorized by Article 8.003 of Law “Collection of debts recorded by **the Municipality**”.

Recommendation

We recommend that **the Municipality** should train their personnel working with the review of the tax returns filed adequately, including at the supervisory level.

Finding number 2007-04 (FS) – Construction licenses permits/excise taxes (MW)

Condition

We have performed audit procedures to thirteen (13) construction excise taxes files and noted the following exceptions:

1. Two (2) files selected were not available for our examination and accordingly, we were unable to evaluate the following documents; Declaration of Construction Activity, Construction Permits, and Notice for requirement of Permits Issued. As a consequence, we can not recompute the applicable construction excise taxes calculated by **the Municipality**.
2. Two (2) auxiliary receipts were not possible traced to official receipt, daily cash collections, deposit slip, and bank statement.

Criteria

Article 8.015 of Law # 81 of August 30, 1991, as amended, establishes that the Municipality should follow regulations approved by the Treasury Department Secretary related with the document conservation of fiscal nature for the examination of accounts and fiscal government operations, in conformity with Law # 5 of December 8, 1955, which establishes the Conservation and Disposition Program of Public Documents. Section 3 of Ordinance # 113, Series 2004-2005 establishes that a Declaration of Construction Activity must be submitted for the Finance Department and Budget. Section 4 of Ordinance # 113 Series 2004-2005 establish the issuing of acceptance or rejection letter for the estimated construction costs during the next 15 days after the submission of the Declaration. Chapter III of Basic Rules for the Municipalities of Puerto Rico establishes the procedures for revenue cash collections.

Cause

The lack of effective Permits Office's internal procedures in order to comply with Ordinance #113, Series 2004-2005, Article 8.015 of Law, and chapter III of Basis Rules for the Municipalities of Puerto Rico.

Effect

Revenues from construction excise taxes could be erroneously computed as part of the lack of supporting documents. Specifically, the supporting documents which validate the computation of the construction excise taxes.

Recommendation

The Permits Office in conjunction with the Finance and Budget Department should strengthen **the Municipality's** internal controls procedures to assure that the construction excise taxes files are complete and comply with the applicable ordinance.

Finding number 2007-05 (FS) – Contract procurement process (MW)

Condition

We have performed audit procedures to nine (9) contracts adjudicated during the year for various services with their respective supporting documents and noted the following exceptions:

1. In two (2) contracts examined, the Certification of Funds issued by the Budget Department was prepared after the contract was signed, and in two (2) of them, the Certification of Funds has not dated.
2. In one (1) contract examined, the clause of no convict for crimes against the government was not included.

Finding number 2007-05 (FS) – Contract procurement process (MW). Continue

Condition, continue

3. In one (1) contract examined, the clause of no receiving salary payments from other governmental agency was not included.

Criteria

1. Chapter IV Section 9 of the Revised Regulation of Basic Procedures establishes that the Finance Director should make the payment of municipality obligations only when credits exist, not used or compromised, legally budgeted or transferred and when such expenditure is accordingly checked or justified by documents presented by interested party.
2. Law # 18 of October 30, 1975, as amended, establishes that a copy of contracts awarded, including amendments to those should be remitted to the Controller's Office of Puerto Rico in the fifteen (15) days of contract or amendment awarding.
3. Law II 458 of December 29, 2000, as emended, establishes the forbidden of award bids or governmental contracts for professional services, and goods or services, to any natural of legal person who are resulted convicted or declared guilty in state of federal forum for crimes which involve public funds.
4. The Controller's Office of Puerto Rico publication, "Principios Legales y de Sana Administración que regula la Contratación de Servicios Profesionales y Consultores en el Sector Público", establishes that in all contracts must be included the clause of no receiving salary payments or compensation for services performed under appointment from other governmental agency.

Cause

This condition may cause a lack of effective internal controls procedures over disbursement of funds. Also, this condition may cause a lack of properly follow up procedures to comply with applicable law and regulations in force for contract procurement process.

Effect

The lack of effective internal controls of the Finance Department in the above mentioned procedures affects **the Municipality** in the application of the applicable laws and regulations.

Recommendation

The Municipality should evaluate its internal controls procedures periodically to ascertain that it complied with the laws and regulations in force.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

(All of the following findings are considered to be reportable conditions. Those that are material weaknesses (MW) are labeled as such. A letter at the end of the finding title referred to the type of compliance requirement as per OMB Circular A-133 Compliance Supplement).

FEDERAL PROGRAM - HEAD START (CFDA No. 93.600)

Finding number 2007-01 (FA) – Earmarking (H) (MW)

Condition

Pursuant to the final Financial Assistance Award for the budget period from January 1, to December 31, 2006, the approved budget was \$12,163,144 for a client population of 1,752, representing in \$6,942.43 per child. An unobligated balance of federal funds for \$222,828 resulted in the Financial Status Report filed for this budget period. The enrollment included in the proposal for this budget period was 1,680 children. However, the active enrollment was 1,634 children. The enrollment deficiency of 46 children caused that the Program received approximately \$96,524 in excess for this budget period.

Criteria

45 CFR Section 1305.7 (b) Enrollment and re-enrollment, establishes the following; a Head Start grantee must maintain its funds enrollment level. When a program determines that a vacancy exists, it should be filled out the vacancy in no more than 30 calendar days. A Program may elect not to fill a vacancy when 60 calendar days or less remain in the program's enrollment year.

45 VFR Section 1305.10 Compliance, establishes the following; a grantee's failure to comply with the requirements of this part may result in a denial of refunding or termination in accordance with 45 CFR part 1303.

Cause

The lack of effective controls to enforcement the programmatic procedures established by the program.

Effect

A grantee's failure to comply with the requirements may result in a denial of refunding or termination in accordance with 45 CFR 1303.

Recommendation

The Municipality should take the appropriate actions to correct the conditions indicated above to achieve compliance with federal program requirements.

Questioned Cost

\$96,524

Finding number 2007-02 (FA) – Contract provisions (I)

Condition

We have performed audit procedures to seven (7) contracts and noted that all of them were submitted to the Office of the Controller of Puerto Rico after the required 15 days and did not include the Certification for Suspension and Debarment.

Finding number 2007-02 (FA) – Contract provisions (I), Continue

Criteria

Subpart C, CFR No. 45, Section 92.36 (b) (1) establishes that “Procurement standards. - Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.”

Subpart C, CFR No. 45 Section 92.35 establishes that “Grantees and sub-grantees must not make any award or permit any award (sub-grant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, “Debarment an Suspension”.

Cause

The lack of integration of the contractual procedures established by **the Municipality** Legal Division and the Program does not comply with the state and federal requirements.

Effect

The exceptions noted are reportable conditions for the procurement process required by state and federal regulations.

Recommendation

The Municipality should take the necessary actions and require to its Legal Division the implementation of the provisions established in the federal regulations.

Questioned Cost

None

FEDERAL PROGRAM - HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No 93.914)

Finding number 2007-03 (FA) – Accounting management system (L) (MW)

Condition

The Municipality has no an effective accounting system procedures to ensure the timely and accurate reconciliation of the accounting records maintained by the program compared to those records maintained by the Finance and Budget Department. All expenditures activities as payroll, fringe benefits and contractual services were recorded in only two accounts; miscellaneous and prior year expenditures. Also, the program does not maintain a formal set of accounting books and accounts, with complete information regarding the program assets, liabilities, obligations and unobligated balances. The financial data is maintained in electronic spreadsheets.

Criteria

Subpart C, CFR No. 45, Section 92.21 (b) establishes that “the financial management systems of other grantees and subgrantees must meet the following standards:

- Financial reporting - Accurate, current, and complete disclosure of the financial results of the financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Finding number 2007-03 (FA) – Accounting management system (L) (MW). Continue

Criteria. continue

- Accounting records - Grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Cause

The Program does not maintain a formal set of accounting books and accounts, with complete information regarding the program assets, liabilities, obligations and unobligated balances. The financial information is maintained only in electronic spreadsheets.

Effect

The condition could result in the possibility of not detecting or preventing errors or irregularities on a timely basis because of the absence of central oversight of all of **the Municipality's** financial operations.

Recommendation

The Municipality should implement monthly reconciliations of the transactions recorded in the program with the transactions processed and recorded in the central accounting department. It should ensure that all federal financial reports are prepared based on the reconciled information.

Questioned Cost

None

Finding number 2007-04 (FA) - Cash management (C) (MW)

Condition

During the fiscal year 2006-2007, the monthly bank balance of the checking of the program ranging from \$33,198 to \$126,044 and the books balance ranging from \$25,673 to \$49,538.

Criteria

Subpart C, CFR No. 45, Section 92.21 (b) (c) requires recipients to implement procedures to minimize the time elapsed between the transfer of funds to the recipient and the issuance and redemption of checks, warrants or payments by other means for program purposes by the recipient.

Cause

The Municipality's internal control over cash is not effective since it is holding excessive cash balances in its bank accounts. The program requests cash advance for payroll, medicines and supplements, which represent the most material category costs, without estimating a reasonable elapsing time for disbursement.

Effect

Excessive cash balances kept by the program to cover disbursements in against of the procedures recommended by the federal regulations.

Finding number 2007-04 (FA) - Cash management (C) (MW). Continue

Recommendation

The Municipality should take the necessary actions on disburse funds within the time constraints imposed by the federal requirement.

Questioned Cost

None

Finding number 2007-05 (FA) – Matching, Level of Effort, Earmarking (MW)

Condition

The Program prepare a WICY expenditures worksheet to determine the distribution of expenditures and the percentage to be used for providing services to women, infants, children and youth. During our audit, we performed test to this worksheet and noted certain differences between the worksheet and the accounting records.

Criteria

The 42 USC 300ff-14(b)(4) establish the following; for the purpose of providing health and support services to women, youth, infants, and children with HIV disease, including treatment measures to prevent the perinatal transmission of HIV, an EMA or TGA shall use for services to each of these populations an amount not less than the percentage of grant funds made available in a fiscal year constituted by the ratio of the population involved (women, youth, infants, or children) in such area with HIV/Aids, to the metropolitan area's overall population with HIV/AIDS.

Cause

The program is not followed up to service providers to send reports of population served including related costs. Data provided by client was prepared using clinical reports which resulted inaccurate when we performed recomputed tests.

Effect

Percentage and expenditures reported for population services may not be correct.

Recommendation

The administration of the program should exercise greater control over the agencies and service providers to ensure that both submit the required reports.

Questioned Cost

Not determinable

Finding number 2007-06 (FA) – Procurement procedures (I)

Condition

We examined eight (8) contracts and noted that they did not include the Bird-Anti-Lobbying Certification.

Finding number 2007-06 (FA) – Procurement procedures (I). Continue

Criteria

Circular A-110: Uniform Administrative Requirements for Grants and Agreements with institutions of Higher Education, Hospital and other Non-Profit, Contract Provisions establish the following:

Byrd-Anti-Lobbying Amendment (31 USC 1352) – Contractors who apply or bid for an award of \$100,000 or more shall file the required certification. Each tier certifies to the tier above that it will not and has not used federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any federal contract, grant or any other award covered by 31 U.S.C. 1352.

Cause

No properly revision to the Proposal Development Guidelines for Request of Funds to the sub-recipient entities.

Effect

Failures to request the certification for Byrd-Anti-Lobbying Amendment may increase the possibility that **the Municipality** could enter into an agreement with an entity that use federal funds to pay for influencing or attempting to influence an officer or member of Congress to obtaining federal contract, grant or award.

Recommendation

We recommend that **the Municipality** should request the Byrd-Anti-Lobbying certification from the agencies service providers, and verify the entity's compliance with laws and regulations.

Questioned Cost

None

Finding number 2007-07 (FA) – Reporting (L) (MW)

Condition

The following financial and special reports were submitted to the grantor agency after the elapsed time required for submission:

1. Financial Status Report - Submitted on October 15, 2007, three months after the extension period granted. It does not reconcile with the accounting records for \$113,308.
2. Annual Progress Report - Submitted on August 1, 2007 thirty three (33) days after the due date.

Criteria

Terms and conditions of the Notice of Grant Award (March 2006 to February 2007) establish the due date for submission of Financial and Special Reports.

Subpart C, CFR No. 45, section 92.20 (b) (1) (2) establishes that the financial management systems of other grantees and sub-grantees must meet the following standards:

Finding number 2007-07 (FA) – Reporting (L) (MW). Continue

Criteria, continue

Financial reporting - Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant.

Accounting records - 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.

Cause

The program management was unable to meet the due dates for submission the reports, and continue be to familiarize with programs term and conditions. No properly reconciliations made between financial reports and accounting records.

Effect

Failure to comply with these reporting requirements will result in deferral or additional restrictions of future funding decisions, as per established in the Notice of Grant Award.

Recommendation

The Municipality should ascertain that comply with the terms and conditions established in the notice of grant award, and perform required reconciliations of financial information.

Questioned Cost

None

Finding number 2007-08 (FA) - Sub-recipient monitoring (M) (MW)

Condition

We have performed audit procedures to the program monitoring review process, and did not observed evidence that the program performed fiscal and programmatic monitoring to the services provider financial and accounting records.

Criteria

EMA's are required to establish policies in the areas of verification and documentation of client eligibility, require that service providers follow those policies, and oversee the implementation by service providers (42 USC 300ff-14(b) and (e)(2)(B)). Subpart C, CFR No.45, Section 92.40(a) establishes that 'Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and sub grant supported activities. Grantees must supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Cause

The monitoring procedures were discontinued.

Finding number 2007-08 (FA) - Sub-recipient monitoring (M) (MW), Continue

Effect

The lack of a complete sub-recipient monitoring process could weaken the corroboration of adequate use of federal funds provided to the sub-recipient entities.

Recommendation

We recommend that **the Municipality** should establish adequate procedures to perform fiscal and programmatic sub-recipient monitoring.

Questioned Cost

None

FEDERAL PROGRAM - COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT (CFDA No. 14.218)

Finding number 2007-09 (FA) – Contract procurement process (I) (MW)

Condition

In eight (8) contracts tested, we found the following exceptions:

1. One (1) contract without Byrd-Anti-Lobbying certification (Apply to all contract over \$100,000)
2. Eight (8) contracts without evidence of Certification of ‘Suspension and Debarment’.
3. Eight (8) contracts without evidence of verified in the Excluded Parties List (EPL).

Criteria

Subpart C, 24 CFR Section 85.36 (b) indicates that the Grantee will use its own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and standards identified within this section.

Circular A-110: Uniform Administrative Requirements for Grants and Agreements with institutions of Higher Education, Hospitals and other Non-Profit, Contract Provisions establish:

Byrd-Anti-Lobbying Amendment (31 USC 1352) - Contractors who apply or bid for an award of \$100,000 or more shall file the required certification. Each tier certifies to the tier above that it will not and has not used federal appropriated funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any federal contract, grant or any other award covered by 31 U.S.C. 1352.

Cause

The Program did not request the certifications as part of document proposal to the public service providers and did not verify if the contracts had the contract provisions indicated above.

Finding number 2007-09 (FA) – Contract procurement process (I) (MW). Continued

Effect

Failures to request the certification for suspension and debarment and contract provisions could increase the possibility that **the Municipality** could enter into an agreement with an entity excluded from making contracts or transactions involving federal funds and take actions over contractors.

Failures to request the certification for Byrd-Anti-Lobbying Amendment may increase the possibility that **the Municipality** could enter into an agreement with an entity that use federal funds to pay for influencing or attempting to influence an officer or member of Congress to obtaining federal contract, grant or award.

Recommendation

We recommend that **the Municipality** should request the certifications of suspension and debarment and Byrd-Anti-Lobbying from the agencies service providers, local certifications; local contract provisions required by state laws and verify the entity's eligibility in the Excluded Parties List System Website.

Questioned Cost

None

FEDERAL PROGRAM – HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)

Finding number 2007-10 (FA) - Cash management (C) (MW)

Condition

During our cash management test, we selected fourteen (14) checks for test and noted the following exceptions:

1. Two (2) checks prepared without evidence of pickup or send date by the supplier and participant which avoid corroborate time elapsing payment procedures, according of these we couldn't evaluate cash management compliance requirement.

Criteria

24 CFR Subpart C Section 85.20 (B) (7), *Cash Management*, establish procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balance and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursement. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Cause

The Municipality is not recorded in its internal control of the date when the check was collected or sent to the participant or supplier.

Effect

Inadequate controls over cash management and HUD requirement could reduce or recapture HOME funds as established by Subpart K, 24 CFR Section 92.500 (d) (1).

Finding number 2007-10 (FA) - Cash management (C) (MW), Continue

Recommendation

The Municipality must maintain an effective internal control over who is the Program official to be responsible for delivering the check in person or by mail and keep track on them.

Questioned Cost

None

Finding number 2007-11 (FA) – Davis Bacon’s Act (D) (MW)

Condition

We evaluated the only contract of construction that was in force during the fiscal year 2006-07, and noted the following:

1. Contract without contract provision for Payment of Prevailing Wages.
2. Three (3) payroll certification without evidence that was monitored and evaluated by the payment official examiner.
3. The rate per hour paid by the contractor to a Truck Driver was below the required minimum amount of \$5.30 per hour.
4. One (1) payroll certification without the contractor signature.

Criteria

24 CFR Subpart H Section 92.354 (a) (1) and (a) (3), required the following:

- (a) (1) establish that every contract for the construction (rehabilitation or new construction) of housing that includes 12 or more units assisted with HOME funds must contain a provision requiring the payment of not less than the wages prevailing in the locality, as predetermined by the secretary of Labor pursuant to the Davis-Bacon Act (40 USC 276 a-27a-5), to all laborers and mechanics employed in the development of any part of the housing. Such contracts must also be subject to the overtime provisions, as applicable, of the Contract Work Hour and Safety Standard Act (40 USC 327-332)
- (a) (3) establish that the participating jurisdictions, contractors, subcontractors, and other participants must comply with regulations issued under these acts and with other federal law and regulations pertaining to labor standards and HUD Handbook 1344.1 (Federal Labor Standards Compliance in Housing and Community Development Programs), as applicable. Participating jurisdictions must require certifications as to compliance with the provisions of this section before making any payment under such contract.

Cause

The Program did not maintain an effective control over the contract provisions required by federal regulations.

Effect

Inadequate review procedures regarding to documentation for disbursement and contract provision process may cause that **the Municipality** may agree with supplier that is not in compliance with state and federal laws.

Finding number 2007-11 (FA) – Davis Bacon’s Act (D). Continue

Recommendation

The Municipality must create a list of all the clauses that should have the constructions contract and in addition strengthen its internal control in the approval of documents to support the disbursement.

Questioned Cost

None

Finding number 2007-12 (FA) – Accounting records (L) (MW), period of availability of funds (H)

Condition

1. We evaluate the list of contract that were issued for the fiscal year 2006-07 and belonged to the obligations required by HUD according to the commitment 2005 and noted the following: (a) the commitment transactions recorded in IDIS report (C-04PR27) at July 31, 2007 have difference between the encumbrances reported in the program’s accounting records. The program’s accounting records present more obligations.
2. In twenty (20) contracts examined, we found the following exceptions:
 - a. Two (2) contracts were not obligated in IDIS report system by the actual amount. **The Municipality** obligates the contract for an amount greater than the actual.
 - b. One (1) contract was obligated by the same amount of \$40,000.00 twice in the accounting system of the program.

Criteria

24 CFR Subpart C Section 85.20 (b) (2), *Accounting record*: establish that records to grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant award and authorizations, obligation, unobligated balances, assets, liabilities, outlays or expenditures, and income. 24 CFR Subpart C Section 85.20 (b) (4), *Budget Control*: establish that the actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

24 CFR Subpart K Section 92.500 (d) (1) and (d) (1) (B), *Reduction*: (d) (1) establish that HUD will reduce or recapture HOME funds in the HOME Investment Trust Fund by the amount or: (d) (1) (B), any funds in the United States Treasury account that are not committed within 24 months after the last day of the month in which HUD notifies the participating jurisdictions of HUD’s execution of the HOME Investment Partnership Agreement.

Cause

The Program has no effective monitoring review process for the encumbrance posted in the accounting system and over federal grants funds by the program’s officers as established by federal regulations

Finding number 2007-12 (FA) – Accounting records (L) (MW), period of availability of funds (H). Continue

Effect

Lack of effective accounting procedures do not allow the effective internal control of the federal funds authorized to **the Municipality**. If the commitments are not in the right way **the Municipality** could be in non compliance and HUD Department could reduce or recapture HOME funds according to the federal regulations.

Recommendation

The Municipality should improve the accounting system procedures for compliance with the standards required by the federal regulations.

Questioned Cost

None

Finding number 2007-13 (FA) – Sub recipient monitoring (M) (MW)

Condition

We evaluated the only monitoring issued during the fiscal year 2006-07, and noted the following:

1. Monitoring Letter - We could not evaluate if the monitoring letter was sent to sub-recipients before 30 calendar days of the first visit of the auditors, since there is no evidence they were visits by the auditor.
2. Preparing the Evaluation - The audit did not have a budget, approved for the period being audited that indicates the kind of test which are required accordingly to the verify compliance.
3. Follow Up on Findings & Consulting - At March 10, 2008, the monitoring officer has not reviewed and evaluated the corrective action plan issued by the sub-recipients.

Criteria

24 CFR Subpart K Section 92.504 (a), establish that the participating jurisdiction is responsible for managing the day to day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, sub-recipients, or contractors does not relieve the participating jurisdiction of this responsibility. The performance of each contractors and sub-recipient must be reviewed at least annually.

Housing Authority Administrative Plan for the fiscal year 2006-07, Monitoring Procedures, establish that the current Report is intended to describe the monitoring process of sub-recipients receiving HOME funds through the Department of Housing of the Municipality of Ponce. It is composed of a sequence of stages developing a cycle:

2nd Stage: The Monitoring Letter: The Monitoring Letter is made upon careful consideration of all reasonable evidence necessary for the audit. It is revised and approved by the Executive Director or the Executive Officer of the Department of Housing of the Municipality of Ponce. Such letter is sent to the sub-recipient by regular mail 30 calendar days before the Auditor's visit.

3rd Stage: Preparing the Evaluation: The Budget, approved for the period being audited, is analyzed, and the auditor develops the kind of tests which are required accordingly to verify compliance.

Finding number 2007-13 (FA) – Sub recipient monitoring (M) (MW). Continue

Criteria, continue

7th Stage: Follow Up on Findings & Consulting: The auditor is required to provide follow up and guidance to the sub-recipient to ensure implementation of any Correction Action Plan as a result of audit findings. The follow-up process is not limited to audit findings, so it may include guidance on financial and operating issues of the sub-recipient. Guidance also includes, advising a sub-recipient on any operating issue which by itself caused reasonable doubt about its potential impact over the entity as a whole or over the delegated federal funds granted to the sub-recipient for social mission.

Cause

The Program did not maintain an effective control over the sub-recipient monitoring procedures established by the state and federal regulations.

Effect

The lack of a complete sub-recipient monitoring process could weaken the corroboration of adequate use of federal funds provided to the sub-recipient entities.

Recommendation

The Municipality should strengthen its monitoring procedures and internal control to take immediate action over the use of federal funds as required by federal regulations.

Questioned Cost

None

Finding number 2007-14 (FA) – Drawdown of funds (N) (MW)

Condition

We evaluated the fourteen (14) drawdowns and noted the following:

1. A drawdown number 1307258 did not have the signature of the officer who prepared the request.
2. In the cash request number 1425064, we noted that the drawdown was approved and authorized by the same officer.

Criteria

24 CFR Subpart K Section 92.502 (b) (1) and (c) (1), establish the following:

- (b) (1) *Project set-up.* Establish that after the participating jurisdiction executes the HOME Investment Partnership Agreement, submits the applicable banking and security documents, complies with the environmental requirements under 24 CFR part 58 for release of funds and commits funds to a specific local project, the participating jurisdiction may identify (set up) specific investments in the disbursement and information system. Investments that require the set-up of projects in the system are the acquisition, new construction, or rehabilitation of housing, and the provision of tenant-based rental assistance. The participating jurisdiction is required to enter complete project set-up information at the time of project set-up.

Finding number 2007-14 (FA) – Drawdown of funds (N) (MW), Continue

Criteria, continue

- (c) (1) *Disbursement of HOME funds.* Establish that after complete project set-up information is entered into the disbursement and information system, HOME funds for the project may be draw down from the United States Treasury account by the participating jurisdiction within 48 to 72 hours of the disbursement request. Any drawdown of HOME funds from the United States Treasury account is conditioned upon the provision of satisfactory information by the participating jurisdiction about the project or tenant-based rental assistance and compliance with other procedures, as specified by HUD.

Cause

The situation occurred because **the Municipality** did not have an effective internal control over the drawdown set-up when the Program officer was absent.

Effect

The lack of internal control over drawdown of funds HOME represent that **the Municipality** is not in compliance with regulation concerning of set-up drawdown procedures.

Recommendation

The Municipality should improve its internal control procedures over drawdown set-up procedures in order to comply with federal regulations.

Questioned Cost

None

FEDERAL PROGRAM – SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)

Finding number 2007-15 (FA) – Participant eligibility (E) (MW)

Condition

We have performed an eligibility test to forty (40) participants' files and noted the following exceptions:

1. Two (2) files examined did not include evidence of income.
2. Five (5) files examined did not include evidence of US Citizenship Declaration Form. Eight (8) files examined did not indicate if the family is US or Immigration Citizenship in the Declaration Form.
3. Nine (9) files examined did not include evidence of Authorization for Release of Information/Privacy Act Notice.
4. Three (3) files examined did not include Sworn Statement, which specified that the participant does not have Value of Assets.
5. Ten (10) files examined did not include evidence of Drug Free Certification.
6. Three (3) files examined did not include evidence of Family Department Certification (PAN).
7. Three (3) files examined did not include evidence of ASUME Certification.

Finding number 2007-15 (FA) – Participant eligibility (E) (MW). Continue

Condition. continue

8. Two (2) files examined did not include HAP Contract that applied to fiscal year 2006 or contract extension applied until June 30, 2007.
9. Six (6) HAP Contract with be issued and signed after the annual reexamination date.
10. Four (4) files examined did not indicate in the Housing Choice Voucher Contract Complement the Utilities Allowance and one (1) file examined did not include evidence for the utilities expense and the annual examination for the utilities allowance.
11. Three (3) files examined did not include evidence of Lease for Voucher Tenancy. Six (6) files examined have the Lease for Voucher Tenancy (issued and signed) after the annual reexamination applied to fiscal year 2006.
12. One (1) Residential Lease and Tenancy Addendum without "Owner" signature.
13. Three (3) files examined did not include evidence of family members' Birth Certificates.
14. One (1) file examined did not include evidence of Department of Labor Certification for all members of 18 years old and up.
15. One (1) file examined did not include evidence of Department of Treasury debt certification and three (3) files examined did not include evidence that the participant filed the income tax return for the last five years.
16. Seven (7) files examined did not include evidence of Credit Information Authorization.
17. Four (4) files examined did not comply with the timing requirement to initiate the reexamination verification procedures.

Criteria

24 CFR Subpart B 5.230, 5.609 established that as a condition of admission or continued occupancy, the tenant must provide necessary information, documentation and tenant's authorization to verify income eligibility. 24 CFR Subpart K Section 982.516 (a), established that PHA responsibility for reexamination of family income and composition at least annually. (2) The PHA must obtain and document in the tenant file third-party verification of the following factors, or must document in the tenant file why third party verification was not available: (i) Reported family annual income; (ii) The Value of Assets, (iii) Expenses related to deduction from annual income; and (iv) Other factors that affect the determination of adjusted income.

Housing Choice Voucher Program Guidebook, Chapter 12, (12.4), Reexamination Procedures. The Housing Authority Administrative Plan for the Fiscal Year 2006, Section 3.2, eligibility criteria, Section 6.4, term of the housing choice voucher, Section 9.0, determination of family income, Section 10.0, verification, Section 17.0, termination of the lease and contract.

Cause

The Programs' officers did not maintain organized files and may not have obtained required documentation to validate the participant's eligibility. In addition, **the Municipality** has no effective monitoring review process for the program internal quality control.

Finding number 2007-15 (FA) – Participant eligibility (E) (MW). Continue

Effect

The Municipality may be qualifying participants that do not meet the eligibility requirements established by federal program and could have an effect in the performance on SEMAP report.

Recommendation

The Municipality should establish strengthen internal supervisory quality controls to monitor performance, ensure compliance with these procedures, and train staff on documentation and verification process.

Questioned Cost

Not Determinable

Finding number 2007-16 (FA) – Financial reporting (L) (MW)

Condition

In our test over “Voucher for Payment of Annual Contribution and Operation Statement Report” versus the accounting records, we noted the following:

1. In the period covered from July 1, 2006 to September 30, 2006 the following items reported certain differences:
 - a. The Voucher Unit
 - b. The HAP Voucher Expenses
 - c. The “Portability Out” HAP Voucher Expense
 - d. The “Portability In” HAP Voucher Expense
 - e. The Administrative Expenses
2. In the period covered from October 1, 2006 to December 31, 2006 the following items reported certain differences:
 - a. The Voucher Unit
 - b. The HAP Voucher Expenses
 - c. The “Portability In” Voucher Unit
 - d. The “Portability In” HAP Voucher Expense
 - e. The Administrative Expenses
3. In the period covered from January 1, 2007 to June 30, 2007 the following items reported certain differences:
 - a. The Administrative Expenses

Criteria

Housing Choice Voucher Program Guidebook, Chapter 20 Section 20.12, the purpose of the form HUD-52681 is provides the final calculation of annual contribution for the PHA. The final calculation of annual contribution required is made on this statement, including the determination of actual housing assistance payment, ongoing administrative fees, special fees, audit costs, and if applicable, preliminary fees. The final provision (increase or decrease) to the ACC program reserve is also shown on this statement. During the fiscal year the PHA will have requisitioned payments from HUD based upon estimates of subsidy needed and administrative fees earned. The year end settlement process on the HUD-52681 reconciles the amounts requisitioned based on estimated requirements with the actual housing assistance payment expenditures and fees earned. The reconciliation may result in either an overpayment due to HUD or an underpayment due to the PHA. Finally, the HUD-52681 presents the operating income, operating expenditures, and operating reserve of the PHA for the reporting year.

Finding number 2007-16 (FA) – Financial reporting (L) (MW), Continue

Criteria, continue

24 CFR Subpart D Section 982.158 (a), established 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.

Cause

The Municipality did not establish effective procedures for the reconciliation of Financial Reporting HUD-52681-B expenditures and voucher units reported to federal agency versus the data recorded in the accounting system. Also, **the Municipality** deducts from the HAP funds that are recovered by the PHA through fraud recovery actions or by a participant's forfeiture of their FSS escrow account.

Effect

The Municipality's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.

Recommendation

The Municipality should take appropriate actions to reconcile in a timely manner the federal finds reports with the accounting records in order to procedure reliable financial data.

Questioned Cost

None

Finding number 2007-17 (FA) – Special reporting (L and E) (MW)

Condition

We have performed compliance test to forty (40) participants' files and we noted the following situations:

1. Three (3) files examined items 5h "Date of Last Annual HQC Inspection" and 5i "Unit Inspection Date" in HUD's Form 50058 was not completed.
2. One (1) file examined item 5h "Date of Last Annual HQC Inspection" in HUD's Form 50058 was not completed.
3. In five (5) files examined, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly.

Criteria

24 CFR Subpart D Section 982.158 (a) establish 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 of record-keeping. The PHA must comply with the financial reporting requirements in CFR part 5, Subpart H. 24 CFR Subpart D Section 982.158 (b), establish that the PHA must furnish to HUD accounts and other record, reports, documents, and information, as required by HUD. For provisions on electronic transmission of required family date, see 24 CFR parts 908. 24 CFR Subpart D Section 982.158 (d), establish that the PHA must prepare a unit inspection report.

Finding number 2007-17 (FA) – Special reporting (L and E) (MW). Continue

Criteria, continue

24 CFR Subpart K Section 982.516 (f). establish that the PHA must maintain accurate of family income data. The PHA establishes procedures that are appropriate and necessary to assure that income data provided by applicant or participant families is complete and accurate.

Cause

The condition is the result of ineffective review procedures necessary to assure completeness of special report. The Program has no effective monitoring review procedures for the income evidence and income calculation.

Effect

The Municipality could be exposed to non compliance with the federal regulation as the result of the data processed in HUD Form-50058, Family Report and could have an effect in the performance on SEMAP report. In addition errors in HUD Form-50058 income may result in incorrect adjusted annual income, total payment, tenant rent, and as a result, will also create incorrect HAP Payment.

Recommendation

The Municipality should strengthen review procedures of the information recorded in HUD's Form-50058, Family Report.

Questioned Cost

Not Determinable

Finding number 2007-18 (FA) – Performance reporting (L)

Condition

During the assessment of Section 8 Management Assessment Program (SEMAP), Certification HUD-52648 Report, we noted the following that the indicator of reasonable rent was incorrectly computed. **The Municipality** indicated that met at least 98% of the units and according to the audit the indicator had to be 80% to 97% of units' sample.

Criteria

24 CFR Part 985, Section 985.3 (b) (1), establish that the reasonable rent in this indicator shows whether the PHA has and implements a reasonable written method to determine and document for each unit leased that the rent to owner is reasonable based on current rents for comparable unassisted units; at the time of initial leasing; if there is any increase in the rent to owner; and at the HAP contract anniversary. The PHA's method must take into consideration the location, size, type, quality and age of the units, and the amenities, housing services, and maintenance and utilities provided by the owners in determining comparability and the reasonable rent.

24 CFR Subpart D Section 982.158 (f) (7) and (8). establish that the records to documents the basis for PHA determination that rent to owner is a reasonable rent (initially and during the term of a HAP contract) and other records specified by HUD.

Finding number 2007-18 (FA) – Performance reporting (L), Continue

Cause

The Municipality did not consider the entire factor necessary for the determination of reasonable rent.

Finding number 2007-18 (FA) – Performance reporting (L), Continue

Effect

If HUD determines that the information submitter in the SEMAP Certification is insufficient for adequate analysis, HUD will not award points under this bonus indicator.

Recommendation

The Municipality must make a reasonable sample in their tests and should consider all criteria that affect the determination of reasonable rent.

Questioned Cost

None

Finding number 2007-19 (FA) – Reasonable rent (N) (MW)

Condition

We have performed compliance test to forty (40) participants' files and we noted the following situations:

1. In two (2) files examined, there was an increase in rent to "Owner" and has no evidence of the Reasonable Analysis Certification.
2. One (1) file examined have the payment standard applied to the Family Report HUD-50058 calculated incorrectly because **the Municipality** did not use the correct Fair Market Value Table applied to the fiscal year 2006-07.
3. According to the Fair Market Value for the fiscal year 2006-07, we noted in twenty one (21) files examined that the payment standard was not calculated accordance to the percentage established in the Administrative Plan approved by HUD.

Criteria

24 CFR Subpart B Section 982.54 (d) (15), establish that the PHA Administrative Plan must cover PHA policies on these subjects; the method of determining that the rent to owner is a reasonable rent (initially and during the term of a HPA contract). 24 CFR Subpart D Section 982.158 (f) (7), establish that the PHA must keep the following records to document the basis for PHA determination that rent to owner is a reasonable rent. 24 CFR Subpart K Section 982.507 (2) (i) and (ii), establish that the PHA must determine the reasonable rent: before any increase in the rent to owner; if there is a five percent (5%) decrease in the published FMR in effect sixty (60) days before the contract anniversary (for the unit size rented by the family) as compared with the FMR in effect one (1) year before the contract anniversary. 24 CFR Subpart K Section 982.507 (4), establish that PHA determinate at all times during the assisted tenancy, the rent to owner may not exceed the reasonable rent as most recently determined or predetermined by the PHA.

Housing Administrative Plan for the Fiscal Year 2006 Chapter 11 Section 11.4, establish that the Payment Standard adopted by the Autonomous Municipality of Ponce (AMP) Housing Authority is 110% of the Fair Market Rent that has been approved by HUD and determines the maximum subsidy for a family.

Cause

The Municipality has no effective monitoring review process for the FMR schedule applicable and the percentage adopted tin the Administrative Plan for the payment standard and calculation to adequately determine the Reasonable Rent procedures during the reexamination process.

Finding number 2007-19 (FA) – Reasonable rent (N) (MW). Continue

Effect

The miscalculation can have an effect in the following: (1) total family share, (2) HAP to owner, (3) tenant rent to owner and, (4) utilities reimbursement to family (if apply) and could have an effect in the performance on SEMAP report.

Recommendation

The Municipality establishes review procedures to ascertain that the FMR applicable and the payment standard percentage applicable in the reexamination are computed correctly in accordance with federal regulation.

Questioned Cost

Not Determinable

Finding number 2007-20 (FA) – Utilities allowance (N)

Condition

We have performed utilities allowance test to forty (40) participants' files and we noted the following situations:

1. In one (1) file examined the utilities allowance was calculated incorrectly because **the Municipality** did not use the correct utilities analysis schedule applied to the fiscal year 2007.

Criteria

24 CFR Subpart K Section 982.517 (a) (2), (b) (1), (b) (4), and (c) (1) establish the following:

- (a) Maintaining Schedule. (2) The PHA must give HUD a copy of the utility allowance schedule. At HUD's request, the PHA also must provide any information or procedures used in preparation of the schedule.
- (b) How allowances are determined. (1) The utilities and schedule must be determined based on the typical cost of utilities and services paid by energy conservative households that occupy housing of similar size and type in the same locality. In developing the schedule, the PHA must use normal patterns of consumption for the community as whole and current utility rates. (4) The utility allowance schedule must be prepared and submitted in accordance with HUD requirements on the form prescribed by HUD.
- (c) Revisions of utilities allowance. (1) A PHA must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there PHAs been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowances and any revisions made in its utility allowance schedule.

Cause

The Program has no effective monitoring review process for the utility calculation to adequately determine the allowance that will be paid to the tenants.

Finding number 2007-20 (FA) – Utilities allowance (N), Continue

Effect

The Municipality could be paying a utilities allowance to the participants incorrectly that could have an effect in the performance on SEMAP report.

Recommendation

The Municipality should establish review procedures to ascertain that tenant's utilities allowance are computed correctly in accordance with federal regulations.

Questioned Cost

Not determinable

Finding number 2007-21 (FA) – Housing quality standards inspections (N) (MW)

Condition

We performed test the Housing Quality Standard Inspection in forty seven (47) participants' files and we noted that in eleven (11) files examined, there are no evidence of the inspection reports applicable for the fiscal year 2006-07.

Criteria

24 CFR Subpart I Section 982.405 (a) and (b), establish that the PHA must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as need, to determine if the unit meets the HQS. The PHA must conduct supervisory quality control HQS inspections. 24 CFR Subpart I Section 982.405 (e), establish that the PHA may not charge the family or owner for initial inspection or re-inspection of the unit.

Cause

Ineffective internal control procedures to ascertain that all tenant's rented units are inspected for HQS at least one annually are not being done because of lack of personnel.

Effect

The Municipality may be paying HAP payments for housing units that does not meet program requirements causing that deficiencies in units leased could affect the life quality of participants.

Recommendation

The Municipality should strengthen procedures to ascertain that all tenant's rented units are inspected for HQS at least one annually.

Questioned Cost

Not Determinable

Finding number 2007-22 (FA) – Housing quality standards enforcement (N) (MW)

Condition

In testing the Housing Quality Standards Enforcement procedures for Failed HQS inspections form HUD-52580, we found the following situations in thirty three (33) participants' files examined:

1. Twelve (12) files examined, the inspection for the fiscal year 2006 does not indicate the final date by which each step of the deficiencies found are repair.
2. Four (4) files examined without evidence of Inspector Officer's initials in the inspection report realized for housing units.
3. Four (4) files examined, the inspection report form HUD-52580 is incomplete, has areas that were not inspected and applied to the unit.
4. Ten (10) files examined, the inspection report the fiscal year 2006-07 indicated failed and the files do not have evidence that the units were corrected the deficiencies detected. We could not find evidence that the PHA took prompt and vigorous action to enforce the owner's obligation and/or cancellation of contract, within time frame required by federal regulations.
5. Five (5) files examined the inspection report form HUD 52580 indicates that the unit has no electricity and the inspection was considered without shortcomings.
6. Eight (8) files examined, the correction of deficiencies detected in housing units exceeded the maximum time allowed (30 calendar days) and the files do not have evidence was found of that the PHA approved time extension waiver and/or cancellation of payment contract.
7. Two (2) notifications sent to the owner were be submitted too late which avoid that the deficiencies will be corrected on the time frame required by the federal regulations.

Criteria

24 CFR Subpart J Section 982.404 (a) (1), (2) and (3), *Owner Obligation*. (1) The owner must maintain the unit in accordance with HQS. (2) If the owner fails to maintain the dwelling unit in accordance with HQS, the PHA must take prompt and vigorous action to enforce the owner obligations. PHA remedies for such breach of the HQS include termination, suspension or reduction of housing assistance payments and termination of the HAP contract. (3) The PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA approved extension).

24 CFR Subpart J Section 982.404 (b) (1), (2) and (3), *Family Obligation*. (1) The family is responsible for a breach of the HQS that is caused by any of the following: (2) If a HQS breach caused by the family is life threatening, the family must correct the defect within no more than 24 hours. For other family-caused defects, the family must correct the defect within no more than 30 calendar days (or any PHA-approved extension). (3) If the family has caused a Breach of the HQS, the PHA must take prompt and vigorous action to enforce the family obligations. The PHA may terminate assistance for the family in accordance with Section 982.552.

24 CFR Subpart I Section 982.405 (d), establish that the PHA must notify the owner of defects shown by the inspection.

Finding number 2007-22 (FA) – Housing quality standards enforcement (N) (MW), Continued

Criteria, continue

Housing Authority Administrative Plan Chapter 12 Section 12.6 (A), *Time Frames and Corrections of HQS Fail Items*. (A) *Correcting HQS Fail Items*. The autonomous Municipality of Ponce (AMP) Housing Authority will schedule a timely inspection to the unit on the date the owner indicates that the receipt of a Request for Tenancy Approval. The owner and participant will be advised to notify the AMP Housing Authority to reschedule a re-inspection when the repairs have been properly completed.

Cause

The Municipality did not implement and maintain adequate internal controls to ensure that inspections met HUD requirements.

Effect

The Municipality made housing assistance payment for units that did not meet housing quality standards that could have an effect in the performance on SEMAP report.

Recommendation

The Municipality require the authority to inspect the units that did not meet minimum housing quality standard to verify that the owner and the tenant took appropriate corrective actions to make the unit repairs, if appropriate actions were not taken, **the Municipality** should abate the rents or terminate the housing assistance payment contract. In addition, **the Municipality** needs to implement internal controls and perform quality controls which ensure that units are inspected in a timely manner and inspections are accordance with its administrative plan and HUD requirement.

Questioned Cost

Not determinable

Finding number 2007-23 (FA) – Housing Assistance Payment (N)

Condition

We have performed a Housing Assistance Payment test to forty (40) participants' files and we noted that in one (1) file examined, the rent payments were not made on behalf of the owner as indicated in the contract.

Criteria

24 CFR Subpart J Section 982.451 (b) (1), establish that the amount of the monthly housing assistance payment by the PHA to the owner/tenant is determined by the PHA in accordance with HUD regulations and other requirements. The amount of the housing assistance payment is subject to change during the HAP contract term.

24 CFR Subpart D Section 982.158(a), establish that the PHA must maintain complete and accurate accounts and other record for the program in accordance with HUD requirements, in a manner that permit a speedy and effective audit.

The records must be in the form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The PHA must comply with the financial reporting requirements in 24 CFR parts 5, Subpart H.

Finding number 2007-23 (FA) – Housing Assistance Payment (N)

Cause

The condition was caused by ineffective review procedures necessary to assure completeness in the rent payment process.

Effect

The Municipality could make rent payment to the owner incorrect which could be exposed to non compliance with federal regulations.

Recommendation

The Municipality should strengthen internal control procedures about the disbursement processing area.

Questioned Cost

Not determinable

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709
Ponce, Puerto Rico 00733-1709

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

Audit Report: Reports on Compliance and Internal Control over Financial Reporting Performed in Accordance with Government Auditing Standards
Audit Period: July 1, 2006 – June 30, 2007 Fiscal year 2006-2007

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

Phone: (787) 284-4141, ext. 2114

Finding Number	Finding	Condition	Corrective Action	Questioned Cost	Status
2006-01 (FS)	Operating deficit of general fund	The Municipality's system of internal control relating to the budgeting function does not provide financial resources in a deficit reserve account to amortize the accrued deficit shown in the general fund (Mayor's fund). The Municipality closed its fiscal years ended June 30, 2006 and 2005 with a general fund deficiency of approximately \$19.2 and \$21.3 millions, respectively.	Although the Budget for fiscal years ended 2004 and 2005 does not present an appropriation for the accrued deficit amortization of the General Fund, as a part of the management decision making process we made the necessary adjustments to decrease the deficit. The fiscal years 2004-2005 and 2005-2006 presented a decrease in the unreserved (deficit) fund balances of \$11.23 millions and \$2.38 millions, respectively, due to the control over expenditures according to revenues collections. For the fiscal year 2006-07, the operational general fund budget shows the deficit amortization provision.	None	Condition still prevail

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709

Ponce, Puerto Rico 00733-1709

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Audit Report: Reports on Compliance and Internal Control over Financial Reporting Performed in Accordance with Government Auditing Standards
Audit Period: July 1, 2006 – June 30, 2007 Fiscal year 2006-2007

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

Phone: (787) 284-4141, ext. 2114

Finding Number	Finding	Condition	Corrective Action	Questioned Cost	Status
2006-02 (FS)	Accounting Management System	<p>During our tests of the financial accounting system of the Municipality, we noted that the computerized system of accounting does not provide for adequate and effective financial information. As a consequence, the finance and budget department personnel should use spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation. For example, capital assets and long-term debt analysis were prepared using the spreadsheet software. In addition, we noted the following:</p> <ol style="list-style-type: none"> The compensated absences debt report prepared for the fiscal year ended June 30, 2005 was not in accordance with GASB Number 16 "Accounting for Compensated Absences". This report was corrected through a suggested audit entry. 		None	Condition still prevail
					Condition corrected

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE
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SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

Audit Report: Reports on Compliance and Internal Control over Financial Reporting Performed in Accordance with Government Auditing Standards
 Audit Period: July 1, 2006 – June 30, 2007 Fiscal year 2006-2007

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

Phone: (787) 284-4141, ext. 2114

Finding Number	Finding	Condition	Corrective Action	Questioned Cost	Status
		2. Federal income related to indirect cost was recorded in the general fund as federal revenue and was also recorded in federal programs as federal revenues. This transaction was subsequently reclassified as transfer in (out) for financial statements purposes.			Condition corrected
		3. A federal bank account has an overdraft balance by \$24,000, approximately, caused by outstanding checks that were cancelled by stop payments made by Municipal Treasurer.			Condition corrected
		4. Some state funds trial balances without account receivables balances to cover accrued liabilities at end of year. Our test detected several bills to governmental entities did not record in general ledger.			Condition corrected

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE
 Apartado 331709
 Ponce, Puerto Rico 00733-1709

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

Audit Report: Reports on Compliance and Internal Control over Financial Reporting Performed in Accordance with Government Auditing Standards
 Audit Period: July 1, 2006 – June 30, 2007 Fiscal year 2006-2007

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

Phone: (787) 284-4141, ext. 2114

Finding Number	Finding	Condition	Corrective Action	Questioned Cost	Status
2006-03 (FS)	Municipal License Tax Revenue	<p>5. Asuntos para la Vejez - Perla del Sur's bank reconciliation was not prepared @ 6/30/2006 because bank statement cut ending month dates between periods. Bank period is from 6/9/2006 to 7/31/2006, and bank balance is \$22,500 by deposit occurred on 6/26/2006.</p> <p>We have performed audit procedures to thirty four (34) municipal license tax returns (the tax return) and noted the following exceptions:</p> <ol style="list-style-type: none"> 1. Two taxpayer files examined (6%), the tax return did not submit the required audited financial statements. 2. In one taxpayer file examined (3%), the revenues taxable in tax return were for one operational month, only. The audited 	<p>The Collection's Office was restructured during fiscal year ended 2005. Appropriate personnel were assigned to improve the whole system.</p> <p>Those personnel will be in charge of the whole process instead of our practice for previous years to contract an external consultant for those functions. As explained in Finding two the Municipality change our strategy to contract external consultants and we believe that develop our own personnel is the right decision to improve the</p>	None	Condition corrected

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

Apartado 331709

Ponce, Puerto Rico 00733-1709

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

Audit Report: Reports on Compliance and Internal Control over Financial Reporting Performed in Accordance with Government Auditing Standards
Audit Period: July 1, 2006 – June 30, 2007 Fiscal year 2006-2007

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

Phone: (787) 284-4141, ext. 2114

Finding Number	Finding	Condition	Corrective Action	Questioned Cost	Status
		financial statements have twelve months of operations. 3. There is no evidence in one taxpayer file (3%) of tax exemption granted. 4. In six taxpayer files examined (18%), we noted that the revenues reported in the audited financial statements did not reconcile with revenues recorded in the tax returns filed.	Municipality accounting procedures.		Condition corrected Condition corrected
2006-04 (FS)	Capital assets works of art and historical treasures.	<i>Capital Assets:</i> 1. In the evaluation of real property records, we noted that the donated facilities Auditorium Pachin Vicéns and the Paquito Montaner Stadium have not CRIM's Appraisal Certification as required by Law No. 537 of September 30, 2004. The Municipality made	As part of the procedures to implement GASB no. 34 the Municipality contracted and external consultant to direct all the procedures to comply with the regulation. The result of the strategy is that external consultant creates a parallel accounting system that never was integrated to our own accounting system.	None	Condition still prevail

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE
 Apartado 331709
 Ponce, Puerto Rico 00733-1709

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

Audit Report: Reports on Compliance and Internal Control over Financial Reporting Performed in Accordance with Government Auditing Standards
 Audit Period: July 1, 2006 – June 30, 2007 Fiscal year 2006-2007

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Contact Person: Mrs. Mirna Ortiz, Finance and Budget Director

Phone: (787) 284-4141, ext. 2114

Finding Number	Finding	Condition	Corrective Action	Questioned Cost	Status
2006-05 (FS)	Construction licenses permits/ excise taxes	<p>an internal study using actual cost of similar assets.</p> <p>2. In one land acquisition (seven acquisitions examined), the title of property was not available for our examination.</p> <p><i>Works of art and historical treasures:</i></p> <p>In the evaluation of the implementation procedures established for financial statements prepared under GASB number 34, we noted that the Municipality does not have formal procedures established for the use and disposition of works of art and historical treasures.</p> <p>We have performed audit procedures to fifteen (15) construction taxes files and noted the following exceptions:</p>		None	Condition still prevail

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		<p>1. Three (20%) files selected were not available for our examination which avoids the corroboration of the following documents, such as: Declaration of Construction Activity, Construction Permits, and Notice for requirement of Permits Issued. This condition does not allow the corroboration of construction tax calculated by Municipality's officers.</p> <p>2. In seven (47%) files examined, the Declaration of Construction Activity was not available for our examination.</p> <p>3. In seven (47%) files examined, the Finance Department's acceptance letter of Declaration of Construction Activity was not available for our examination.</p>	<p>1 to 3) To instruct Office of the Permits to improve the files system and to execute more control over the use of files.</p>		<p>Condition partially corrected</p> <p>Condition corrected</p> <p>Condition corrected</p>

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2006-06 (FS)	Bid Board's procurement management system	<p>4. In cases from Central Government's construction works, we noted that the file did not include the Notice of Requirement for Issuing Permits.</p>	<p>The supervisor of Collections Office is going to require as a procedure that all tax payers going first to Office Permits to file the project. They have to get the document before tax payment be done. Another corrective action is to require copy of the document issued by the Central Government in order to maintain evidence concerning the projects.</p>	None	Condition corrected
	<p>We have performed audit procedures to fifteen (15) bids and noted the following exceptions:</p> <p>1. In four (26%) bids examined, five bidders submitted incomplete documents as required by bid announcement. The Bid Board adjudicated to these bidders without compliance of all documents.</p>		<p>1. A checklist has been developed to insure all required and applicable documents are verified prior to the bid board act upon the offers. The inventory of the documents will be performed</p>		Condition Corrected

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		<p>2. In one (6%) bid examined, one participant bidder was not notified by certified mail of the bid adjudication.</p> <p>3. In one (6%) bid examined, the Certification of Funds by the Finance Department was received after the bid announcement was published in the newspaper.</p>	<p>by the evaluating staff and verified by Bid Board staff.</p> <p>2. Written instructions were given to Bid Board's clerical staff to include the Certified Mail Control Number in the Adjudication Notification, providing tracking information in case the Certified Mail receipt is not received.</p> <p>3. Procedures will be reviewed to insure the required Certification of Funds is obtained prior to the bid announcement.</p> <p>A checklist will be developed to insure all required documents are included in the bid's file.</p>		<p>Condition corrected</p> <p>Condition corrected</p>
2006-07 (FS)	Disbursement voucher process	We have performed audit procedures to sixty (60) disbursements made during the			

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		<p>year with their respective supporting documents derived from various concepts and noted the following exceptions:</p> <ol style="list-style-type: none"> In one (2%) voucher, the purchase requisition did not have an authorized officer signature. In four (6%) vouchers, services were paid without compliance of bid procedures (competition). In one (2%) voucher, the purchase order was prepared and dated after the invoice date. 	<ol style="list-style-type: none"> and 4. To instruct Purchase Office personnel and personnel in charge to verify vouchers for payment to be alert to this situation. To instruct Bid Office to be alert to this situation and to require written justification for cases that there are no bids. To instruct Legal Division and Bid Office that they have to evaluate the project and determine if is necessary to perform a bid. If is necessary a bid no contract should be issued. To meet with the parties involved to correct this situation. 		<p>Condition corrected</p> <p>Condition corrected</p> <p>Condition corrected</p>

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		<p>4. In one (2%) voucher, the change order of a construction contract exceeded the 25% threshold and we do not evidence that Bid Board examined this transaction. Also, we noted that a portion of the total cost contracted obligated in the next fiscal year budget to the fiscal year which the contract was signed.</p> <p>5. In one (2%) voucher, Joint Resolution #1838-2004 (which was designated for paving some streets) was used to pay insufficient costs of Joint Resolution #2084-2004 (which was designated for equipment acquisitions). We did not have any evidence from State Legislature to reprogram the concept of the Joint Resolution #1838-2004.</p>	<p>4. To prepare letter to State Legislature to require the reprogramming of funds for futures cases like this.</p>		<p>Condition corrected</p> <p>Condition corrected</p>

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Finding Number	Finding	Condition	Corrective Action	Questioned Cost	Status
2006-08 (FS)	Contract procurement process	<p>We have performed audit procedures to fourteen (14) contracts made during the year with their respective supporting documents derived from various concepts and noted the following exceptions:</p> <ol style="list-style-type: none"> In nine (64%) contracts, the Certification of Funds issued by Budget Department was prepared after the contract was signed and dated, and in two (14%) contracts examined, no evidence of Certification of Funds was available. In seven (50%) contracts, the contracts were filed to the Office of the Controller of Puerto Rico after the 15 days period required. In seven (50%) contracts, the clause of penalties and/or remedies in case of breach of contract was not present in the contracts. 	<ol style="list-style-type: none"> To implement form named "Certifications of Funds to Realized Contracts" to certificate funds for the Legal Division before the contract be realized. Coordination with Legal Division of the importance of delivers the contracts on time and additional personnel will be assigned in this job. Coordination with To instruct Legal Division that all contracts should have the Penalty Clause. 	None	<p>Condition partially corrected</p> <p>Condition partially corrected</p> <p>Condition corrected</p>

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		4. In six (42%) contracts, the oath declaration required by Law #428 of September 22, 2004 was not present in the contracts.	4. Since February 2006 the Legal Division is requiring the document.		Condition corrected
		5. In one (7%) contract, the Certificate of Incorporation was not available in one contract supplier.	5. Coordination with Legal Division about the importance of this form be included in contracts.		Condition corrected
		6. In two (14%) contracts examined, the clause of Income Tax withholding in the origin was not included in the contract.	6. Coordination with Legal Division the inclusion of the Income Tax Withholding clause on all contracts.		Condition corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
II 2006-01 (FA) Participant's eligibility	HEAD START (CFDA No. 93.600)	<p>We have performed eligibility test to twenty-five (25) participants' files and noted the following exceptions:</p> <p>1. One (1) file examined did not include the family income in the enrollment statement signed by the Head Start's officer.</p> <p>2. Three (3) files examined did not include the family income in the enrollment application, such as; social security payments.</p>	<p>1. We revised the procedures during the Program Year 2005-2006, and designed a new Eligibility Certification Sheet, where the social worker certifies the documents received, sign and write the License number in the Certification. We are maintaining the Social Workers in an orientation process.</p> <p>2. We had plenty meeting with the Social Workers to revise the procedures, with the intention of encourage them to have the due care in the intervention with the eligibility process. In this</p>	None	<p>Condition corrected</p> <p>Condition corrected</p>

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		<p>3. One (1) file examined did not provided evidence of annual medical evaluation and five (5) files examined did not have the annual dental evaluation.</p> <p>Also, in eighteen (18) centers examined, the monthly average daily attendance rate was below 85 percent. This situation has the effect of decreasing the Head Start funds for meal payments. The Policy Council's delegate members identifying some problems in these centers. As a consequence, the Child Food Program would not be responsible to cover up these payments.</p>	<p>particular case the Social Worker included the income evidence, but not wrote down the information in the Eligibility Certification.</p> <p>3. We have given oral and written orientation to parents to comply with requirements of medical and dental evaluation for attendance the child's entry into the Program. Follow up to the parents who have not completed these evaluation through: telephone calls, home visits, written notices, coordination for transportation to assist to medical and laboratories appointments. In October 2006 we celebrated a health Activity where we brought Pediatricians, Dentist and Laboratories Services at no cost to our participants to</p>		<p>Condition corrected</p>

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-02 (FA) Period of availability of funds	HEAD START (CFDA No. 93.600)	During our test over the liquidation of accounts payable at December 31, 2005, we noted that some debits amounting to \$17,819, were paid after 90 days. The program did not receive a waiver issued by Region II authorizing those payments.	provide the medical services to comply with federal regulation. The most common reason for absent in these centers was illness. We will continue to orientate parents in the importance of attendance of their children, and reoriented educational staff in strategies that promote fully attendance.	\$17,819	Condition still prevails
			There were four (4) vouchers paid after March 31, 2006. These suppliers took to long to bring the debt certification to comply with the procurement process. For the next year we are going to ask for waiver to HHS Region II to authorize the payments over the 90 day past the PY.		Condition partially corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-03 (FA) Property management	HEAD START (CFDA No. 93.600)	During our test over equipment, we noted the following situations: 1. Donated equipments in two centers were not recorded in the Program's property register.	1. To include donated equipment in the Programs' register we need a resolution from the Municipality Legislative Entity , authorizing to put a property number to the donated equipment. At this moment we are making a list to include the donated equipment at the centers to be presented at the Municipality Legislative Entity to comply with the procedures.	None	Condition corrected
2006-04 (FA) Contract provisions	HEAD START (CFDA No. 93.600)	We have performed audit procedures to six contracts and noted the following exceptions: 1. Two (2) contracts examined were submitted to the Commonwealth of Puerto Rico Controller's Office after the	1. This procedure is in charge of the Finance & Budget Office of the Municipality of Ponce. At this moment the Finance	None	Condition still prevail

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2006-05 (FA) Center facilities	HEAD START (CFDA No. 93.600)	<p>required 15 days.</p> <p>2. Two (2) contracts examined did no include the oath declaration according to Law 428 of August 22, 2004.</p>	<p>and Budget Office of the Municipality of Ponce is been rigorous with this process and be sure all the contracts are submitted before the 15 days due period.</p> <p>2. At this moment the Legal Division of the Municipality of Ponce and Pre-intervention unit of the Finance Department are alert to this event, taking due care to assure the compliance in this matter.</p>	None	Condition corrected
		Center facilities	<p>1. The cover for the a/c unit was installed immediately.</p> <p>2. We put all the electric outlet cover, installed a cyclone fence to restrict the access to the back yard, and hired the Teacher.</p>	None	Condition corrected

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2006-06 (FA) Program administration	HEAD START (CFDA No. 93.600)	We do not have evidence of the approval letter issued by Region II about change in the position of	<p>3. Installed new emergency lights, removed obsolete equipment from playground area immediately.</p> <p>4. We only have four (4) Kitchen's Assistants in the Program, no all the double centers have Kitchen Assistant, and we installed a new air conditioning unit at this center.</p> <p>5. We installed new emergency lights, and fixed bathroom's light outlet. We constructed a fence to restrict the access to the sidewalk of the playground area. We are going to install an inner door in the garbage place.</p> <p>We receive copy of the approval letter for this change in position on October 2006 from Mr. Allan</p>	None	Condition corrected

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2006-07 (FA) Accounting management system	HIV Emergency Relief Project Grants (CFDA No. 93.914)	Head Start Director during fiscal year 2005-06. The Municipality has no an effective accounting system procedures to ensure the timely and accurate reconciliation of the accounting records maintained by the program compared to those record maintained by the Finance and Budget Department. All expenditures activities as payroll, fringe benefits and contractual services were recorded in only two accounts; miscellaneous and prior year expenditures. Also, the program does not maintain a formal set of accounting books and accounts, with complete information regarding the program assets, liabilities, obligations and unobligated balance. The financial data is maintained in electronic spreadsheets.	Jones/ Branch Manager HHS Region II. Since August 1, 2006 the Program has an Acting Director. The Municipality will establish budget accounts for all kind of expenditures separately to be used by the Program and the Finances Department. All the assets and liabilities will be maintained in a complete set of books to be conciliated between the Program and the Finance Department every month.	None	Condition still prevails

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2006-09 (FA) Procurement procedures	HIV Emergency Relief project Grant (CFDA No. 93.914)	<p>In our procurement test, we noted the following situations:</p> <ol style="list-style-type: none"> Eight (8) contracts did not include the State Department of Labor Certification. 	<ol style="list-style-type: none"> For the new 2007 Proposals was included in the Guidelines for submission. A certification form was developed and included in every contract. 	None	Condition corrected
		<ol style="list-style-type: none"> Eight (8) contracts examined that did not include the Certification for Suspension and Debarment and procedure followed by Program to corroborate if the contractors in Excluded Parties List System Website. 	<p>Contracts will be screened prior to approval in the web site provided by the federal government. When this is done the contracts will be accompanied by this certification.</p>		Condition corrected
		<ol style="list-style-type: none"> The Proposal Development Guidelines for Request of Funds does not include the request of federal assurance certifications. 			Condition still prevail

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-10 (FA) Reporting	HIV Emergency Relief Project Grants (CFDA No. 93.914)	<p>The following financial and special reports were submitted to the grantor agency after the elapsed time required for submission:</p> <p>1. Financial Status Report: Submitted on October 2, 2006, two months after the waiver extension date July 31, 2006.</p> <p>2. Annual Progress Report: Submitted 136 days (four and half months) after due date of 120 days after the end of budget period (February 28, 2006).</p> <p>3. WICY Report: Submitted 134 days (four and half months) after due date of 120 days after end of budget period.</p> <p>4. MAI Report: Submitted 163 days (five months and thirty days after the due date of 90 days after the end of budget period.</p>	<p>I. A Technical Assistant (TA) was requested to learn how to complete these reports in order to comply correctly and in a timely fashion.</p>	None	<p>Condition still prevail</p> <p>Condition still prevail</p> <p>Condition corrected</p> <p>Condition corrected</p>

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2006-11 (FA) Sub-recipient monitoring	HIV Emergency Relief Project Grants (CFDA No. 93.914)	<p>5. Federal Cash Transaction Report: The period from April 1, 2006 to June 30, 2006 was submitted on August 17, 2006, three days after the due date August 14, 2006.</p> <p>We have performed audit procedures to the program monitoring review process, and noted the following exceptions:</p> <ol style="list-style-type: none"> 1. One service provider monitoring was not available for examination. 2. We did not observed evidence that the program performed fiscal and programmatic monitoring to the service provider financial and accounting records. 	At least one fiscal monitoring will be conducted at every agency.	None	<p>Condition corrected</p> <p>Condition corrected</p> <p>Condition still prevails</p>

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-12 (FA) Disbursement process	Community Development Block Grant (CFDA No. 14.218)	We have performed audit procedures to twenty five (25) vouchers of payments and noted that two (2) purchase orders were issued after the goods/service invoice.	The invoice for goods and services received were for the salary of two (2) employees subsidized under the Public Service Program. A proposal for these centers was properly evaluated and selected. The contract, effective July 1, was also executed providing the legal bidding document authorizing the payment. The situation occurs at the beginning of the fiscal year while the grant agreement is in process, this process can extend over 30 days from the July 1, the beginning of our fiscal year. Instructions will be given to reject any invoice if a purchase order has not been issued.	None	Condition corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-13 (FA) Cash management	Community Development Block Grant (CFDA No. 14.218)	Five (5) payment checks were issued to vendors between nine (9) and twenty (20) days after the funds were deposited in the bank account.	A close coordination currently exists between our accounting office and the municipality's Finance Department. Our staff is well aware of Program Requirements. Since our staff has no control over the check issuing process we depend upon the actions of the responsible office. It must be acknowledged that unforeseen staff situation may occur that may prevent the compliance of the program. The checks that were issued twenty (20) days after the funds were deposited were intended to be issued prior to the municipality's Christmas' recess 2005. Instructions will be given to the accounting staff to formally notify the responsible check's issuing office of the requests of funds and the federal requirement to issue the check.	None	Condition corrected

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2006-14(FA) Equipment and real property management	Community Development Block Grant (CFDA No. 14.218)	The purchase of one motor vehicle (no. 1104) was recorded in the Municipality's property records by the amount of \$23,685. The property register did not meet with some recordkeeping items established by federal requirements, such as; source of resource which paid the property acquisition, percentage of federal participation and location.	The vehicle was purchased by municipality's public service center with funds reserved for that activity under a delegation of funds agreement. Procedures will be reviewed to insure compliance with current directives.	None	Condition corrected
2006-15 (FA) Contract procurement process	Community Development Block Grant (CFDA No. 14.218)	In eight (8) contracts tested, we found the following exceptions: 1. One (1) contract without evidence of the Certification of Income Tax Return filed. 2. One (1) contract without evidence of Certification of Incorporation. 3. Six (6) contracts without clause of any conviction against the governmental funds.	A Contract Processing Checklist will be developed that will list all federal, state and, local documents and require contract clauses. The form will provide the originating office to verify the documents included in the contract's package and the staff responsible to process the contract will review and document compliance.	None	Condition corrected Condition corrected Condition corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-16 (FA) Cash management	HOME (CFDA No. 14.293)	<p>4. Two (2) contracts without clause of any receiving salary payments from other governmental entities.</p> <p>5. Four (4) contracts without evidence of Certification of 'Suspension and Debarment'.</p> <p>During our cash management test, we selected thirty-nine (39) checks for test and noted the following exceptions:</p> <p>1. Twelve (12) checks were submitted to participants and suppliers after 15 days after that the funds were deposited in the bank account.</p> <p>2. Checks prepared without evidence of pickup date by the supplier and participant which avoid corroborate time elapsing payment procedures.</p>	<p>Instructions have been given and a procedure established to verify the Excluded Party List System prior to the formalization of any contract.</p> <p>1. and 2. The procedures established are designed as to permit the check issue is no more than three working days from the date of the drawdown in IDIS. Once the check is issued, it is registered in the accounting record and compliance with the program requirements is met. In some instances checks are</p>	<p>None</p>	<p>Condition corrected</p> <p>Condition corrected</p> <p>Condition corrected</p> <p>Condition still prevail</p>

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		<p>3. One (1) employee submitted the check to the participants without have this job duty in his/her job description (OAP-1 Form).</p> <p>4. The HOME Investment Trust Fund's bank account has a balance of \$453,004 on June 30, 2006 and \$333,774 on June 30, 2005. The bank account had not disbursements realized during the fiscal year 2005-06 and prior year. This account has deposits of funds recaptured and program income.</p> <p>5. San Antón Project's bank account, which was financed with HOME funds, has a balance of \$223,594 on June 30, 2006 and \$165,310 on June 30, 2005. The bank account had not disbursements realized during the fiscal year 2005-06</p>	safeguarded until pickup per payee request or for program requirements such as mortgage closing and Deed signatures.		<p>Condition corrected</p> <p>Condition partially corrected</p> <p>Condition partially corrected</p>

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-17 (FA) Participants eligibility	HOME (CFDA No. 14.293)	<p>and prior year. This account has to deposits of program income.</p> <p>In our test over nine (9) participants' files, we note the following exceptions:</p> <p>1. Two (2) participants have installment monthly payments without evidence of evaluation of payment capacity.</p> <p>2. Five (5) files without evidence of the moving date to new housing unit assisted with federal funds.</p>	<p>1. In both instances, the amount of payment was increased per participant request to reduce the term of the repayment period and in accordance to program design.</p> <p>Effective April 2006, a subsidy analysis is performed on every participant prior to the execution of the assistance agreement.</p> <p>2. A certification from will be design and participants will be required to return to the office certifying a moving date.</p>	None	Condition corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-18 (FA) Procurement process	HOME (CFDA No. 14.293)	<p>In our test of five (5) contracts, we noted the following exceptions:</p> <ol style="list-style-type: none"> 1. Three (3) contracts without evidence of the filing requirement date to the Office of the Comptroller Office of Puerto Rico. 2. One (1) contract without evidence of oath declaration required by Law No. 428. 3. Two (2) contracts without contractual provision about filing of income tax returns. 4. One (1) contract without evidence of the following certifications: CRIM, Treasury and Labor Department. 5. Four (4) contracts without identified the HOME budgetary expenditure account. 	<p>A contract processing checklist will be developed that will list all federal, state, and local documents and require contract clauses. The form will provide the originating office to verify the documents included in the contract's package and the staff responsible to process the contract will review and document compliance.</p>	None	<p>Condition corrected</p> <p>Condition corrected</p> <p>Condition corrected</p> <p>Condition corrected</p> <p>Condition corrected</p>

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
		6. Two (2) contracts which did not include contractual provision about have not conviction against public funds and compensation with other governmental entities.			Condition corrected
		7. Two (2) contracts without certification for suspension and debarment.			Condition corrected
		8. Five (5) contracts without evidence of procedure followed to corroborate the contractors in excluded parties' list system website.			Condition corrected
		9. One (1) contract without contract provision for work hours and safety standards.			Condition still prevail

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-19 (FA) Program income	HOME (CFDA No. 14.293)	Our test over compliance area detected the following exceptions: 1. Accounting records did not identify the revenues generated by program income. 2. HOME funds were requested without considering the amount of program income deposited in bank accounts. 3. The program had not analysis over HOME recapture funds to evaluate the period of availability of funds to be used.	An analysis of this account will be conducted to identify the recaptures income. Once identify by type, they will be used to cover imminent disbursement and the balance will be restaring to the line-of-credit, as applicable. Program Income will be process according to current directives.	Not Determinable	Condition corrected Condition corrected Condition corrected
2006-20 (FA) Accounting records	HOME (CFDA No. 14.293)	In our test over the accounting management system, we detected the following exceptions: 1. The program did not have a complete general ledger of the San Antón Project.	1. Although a separate account was open and maintained by the Municipality's Finance Division, the Program staff will set up the required ledger.	None	Condition corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
		2. HOME recaptured fund had not distributed the resources deposited between recapture and program income.	2. An analysis of this account will be conducted to identify the recaptures funds from program Income. Once identify by type, they will be used to cover imminent disbursement restoring to the Line-of-Credit, as applicable.		Condition partially corrected
		3. The commitment transactions recorded in IDIS report system were not recorded in program's accounting records as encumbrances.	3. Procedures are in place to maintain over accounting records parallel to IDIS.		Condition still prevail
		4. The accounting records did not provide procedures to evaluate that commitments recorded in IDIS system were obligated during the period of availability of commitment by grant period.	4. Previously, our accounting system had partial capability to list the encumbrances (commitment) by date (contract date).		Condition still prevail

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-21 (FA) Sub recipient monitoring	HOME (CFDA No. 14.293)	5. Some accounts payable were being recorded in accounting records in grant year which was different to grant year posted in IDIS system. The Municipality did not perform an effective monitoring process to sub recipient and CHDOs organizations assisted with HOME funds.	5. The payables were recorded correctly in our accounting system, since IDIS is a FIFO system we have no control over this issue. The department's auditor will schedule a formal and on-site monitoring.		Condition corrected Condition Still prevail
2006-22 (FA) Participant eligibility	SECTION 8 HOUSING CHOICE VOUCHER (CFDA NO. 14.871)	Eligibility 1. Files examined did not include evidence of family members' social security card number. 2. File examined did not include Sworn Statements, which specified that the participant does not have Value of Assets.	Individual tenant's files are being corrected by requesting the required document. Provide training to caseworkers and staff. Condition previously identified through the SEMAP evaluation. A checklist was developed and distributed to caseworker to provide verification.	None	Condition corrected Condition still prevail

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		3. Three (3) files examined did not include evidence of Good Behavior Certificate for all family members of 18 years old and up. 4. Files examined did not include evidence of Drug Free Certification. 5. File examined did not include evidence of Family Department Certification (PAN). 6. Files examined did not include evidence of ASUME certification. 7. Files examined did not include evidence of US Citizenship Declaration Form.			Condition corrected Condition still prevail Condition still prevail Condition partially corrected Condition partially corrected

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		<p>8. Files examined did not include evidence of Authorization for Release of Information/Privacy Act Notice. Two (2) files examined did not include some member (18 years old and up) signature in the Authorization for Release of Information/Privacy Act Notice.</p> <p>9. One (1) HAP contract without landlord signature.</p> <p>10. HAP contract without evidence of contract that applied to fiscal year 2005 or contract extension applied until June 30, 2006.</p> <p>11. Files examined without evidence of Voucher Certification. Two (2) files examined without Section 8's officer signature in Voucher Certification.</p>			<p>Condition still prevail</p> <p>Condition corrected</p> <p>Condition still prevail</p> <p>Condition corrected</p>

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		12. Files examined did not include evidence of family members' Birth Certificates. 13. Files examined did not include evidence of Verification of Studies by Family Child. 14. Files examined did not include evidence familiar photo. 15. Files examined did not include evidence of Department of Labor Certification for all members of 18 years old and up. 16. Files examined did not include evidence of Department of Treasury Debt Certification.			Condition still prevail Condition corrected Condition corrected Condition partially corrected Condition partially corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-23 (FA) Special reporting	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	<p>17. Files examined did not include evidence of Department of Treasury Tax Return Debt Certification by last five years.</p> <p>18. File examined did not include evidence of Sworn Statement that identified the civil status.</p> <p>We have performed compliance test to twenty five participants' files and noted the following situations:</p> <ol style="list-style-type: none"> 1. Files without evidence of the familiar report (HUD's Form 50058) during fiscal year 2005-06. 2. File examined without complete items 5h (date when unit passed inspection) and 5i (date of last annual HQS Inspection) in HUD's Form 50058. 	<p>In this instance both participants were portability, residing in other jurisdictions (HA) the receiving HA is not required to submit a 50058 to the initial HH, receiving HA is required to submit an invoice. If the family is absorbed by the receiving HA a notification is received for this action.</p>	Not determinable	<p>Condition partially corrected</p> <p>Condition corrected</p>
					<p>Condition corrected</p> <p>Condition Still prevail</p>

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-24 (FA) Reasonable rent	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	<p>3. Files examined, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly.</p> <p>We have performed compliance test to twenty five participants' files and we noted the following situations:</p> <p>1. In accordance to Fair Market Value Table applicable, the payment standard was calculated incorrectly in HUD Form 50058.</p>	<p>Individual tenant's files are being corrected.</p> <p>Provide training to caseworkers and staff.</p>	Not determinable	Condition still prevail
			<p>A review of current procedures will be performed to ascertain if changes are needed.</p> <p>This condition occurred due an exception or revision of the FMR by HUD, where the FMR for our area were being revised. Regional office gave the option to continue to use the current FMR or use the newly revised.</p>	Not determinable	Condition partially corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-25 (FA) Housing quality standards inspection	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	In the participant's files, we did not find evidence of the inspection reports applicable for the fiscal year 2005-06.	This situation due to personnel shortage and a separation of duties. An inspection unit was created that included two housing inspectors dedicated exclusively to the inspection task. A third inspector will be recruited to cover the deficiency of the unit.	Not determinable	Condition Still prevail
2006-26 (FA) Housing quality standards enforcement	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	In testing the Housing Quality Standards Enforcement procedures for failed HQS inspections, we found the following situations in thirty one participant's files examined: 1. The correction of deficiencies detected in housing units exceeded the maximum time allowed (30 calendar days) and the files do not have evidence was found of that the PHA approved time extension waiver and/or cancellation of payment contract.	This situation occurred due to personnel shortage and a separation of duties. An inspector unit was created that included two housing inspectors dedicated exclusively to the inspection task. A third inspector will be recruited to cover the deficiency of the unit.	Not determinable	Condition Still prevail

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		<p>2. In the files examined, the inspection report for the year 2005-06 indicated failed and the files do not have evidence that the units were corrected the deficiencies detected. We could not find evidence that the PHA took prompt and vigorous action to enforce the owner's obligations and/or cancellation of contract, within time period required by federal regulations.</p> <p>3. One (1) file without evidence of the date when were corrected housing unit's deficiencies by participant.</p> <p>4. One (1) file examined, we noted that the HAP contract will be cancelled fifteen months after that housing unit failed inspection. We noted that the housing unit did not have water service before the last pass inspection at October 1, 2004.</p>	<p>Supervisor and inspector attended HQS training and certification on 6-8 September, 2006.</p>		<p>Condition still prevail</p> <p>Condition corrected</p> <p>Condition corrected</p>

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-27 (FA) Utilities allowance	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	<p>In testing compliance procedures for utilities allowance, we found the following situations in twenty participants' files examined:</p> <ol style="list-style-type: none"> Utilities allowance was calculated incorrectly in accordance to rooms by unit reported on HUD Form 50058. The electricity cost utility analysis realized for one room and three rooms on April 1, 2006 was calculated incorrectly. 	<p>A thorough review will be conducted to ascertain any weakness in our current procedures.</p> <p>Instruction will be given to verify and double check the calculation used to determine utility allowance.</p> <p>Provide training to staff and caseworkers.</p>	Not determinable	<p>Condition partially corrected</p> <p>Condition corrected</p>

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2006-28 (FA) HAP payment-disbursement	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.817)	During our test over HAP participant payroll of March 2006, we noted in two files examined differences between the amount paid to the landlords and the amount indicated in HAP contract. Also, we noted in one file that the utility reimbursement paid to the tenant was calculated incorrectly.	A thorough review of the disbursement process will be conducted in order to strengthen the existing internal control.	None	Condition corrected
2005-04 (FA) Matching requirement	HEAD START (CFDA No. 93.6000)	During our test of Matching process, we noted that the Head Start Program uses a facility rent study to calculate and record in-kind rent instead an internal appraisal valuation.	Form this time ahead the Municipality of Ponce is going o obtain these appraisal evaluation from external resources.	None	Condition partially corrected
2005-05 (FA) Contract provisions	HEAD START (CFDA No. 93.6000)	1. Contracts did not have evidence of competition process. 2. Contracts did not include a clause for providing access to General Accounting office or other federal agency to the	We are going to ask for the consulting from the Municipality's Legal Division to see how we could include a clause in all of our contracts that assure the compliance of this requirement. We implemented a	None	Condition corrected Condition corrected

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2005-06 (FA) Accounting management system	HEAD START (CFDA No. 93.600)	<p>book, documents, and others supporting evidence.</p> <p>3. The transportation contract did not provide a clause for indicating new transportation regulations applicable to the service contracted.</p>	<p>process to verify that these Contractual Services were not included in the Debarment and Suspension List of the Federal Government or by requiring information from the Division of External Resources of the Puerto Rico Justice Department.</p> <p>The Municipality of Ponce sent a letter to the Regional Office HHS, dated November 8, 2005 presenting a non-federal cash contribution to the Program in the amount of \$578,926.00. In addition, the municipality of Ponce paid Other Deductions of Payroll for the month of December 2005 in the amount of \$236,352.00 to the Head Start and Early Head Start Programs.</p>	None	Condition corrected

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2005-07 (FA) Center facilities	HEAD START (CFDA No. 93.600)	Defects found in the facilities of the center.	Since August 2005 the program has establish maintenance plan to assure that the centers are in compliance with the Health and Security Federal Regulation. This initiative is going to be coordinate with the Ongoing Monitoring Team.	None	Condition corrected
2005-08 (FA) Accounting management system	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	Accounting Management System	The Municipality will establish budget accounts for all kind of expenditures separately to be used by the Program and the Finances Department. All the assets and liabilities will be maintained in a complete set of books to be conciliated between the Program and the Finance Department every month.	None	Condition still prevail
2005-09 (FA) Cash management	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	Cash balance shown higher average monthly cash balance.	The Municipality has established a System of Cash received goes out. The Cash Payment Request is made at the same time the checks are done.	None	Condition still prevail

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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, 2006 – June 30, 2007 Fiscal year 2006-2007

Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Contact Person: Mrs. Myrna Ortiz, Finance and Budget Director

Phone: (787) 284-4141, ext. 2114

Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2005-11 (FA) Procurement procedures	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	Certification for Suspension and Debarment were not included in the proposal documents submitted by agency service providers. The proposal Development Guidelines for Request of Funds does not include the request of federal assurance certification.	The Municipality will review the proposal submission procedures in order to ask all participants certifications of suspension and debarment.	None	Condition still prevail
2005-13 (FA) Eligibility	SECTION 8 HOUSING CHOICE VOUCHER (CFDA NO. 14871)	Eligibility document and Income Evidence without the Participants' files.	The Program implemented a checklist to insure compliance on March 2005. Will implement a verification system where the supervisory staff will inspect every file prior to contract execution.	Not determinable	Condition still prevail
2005-14 (FA) Special reporting	SECTION 8 HOUSING CHOICE VOUCHER (CFDA NO. 14871)	Files examined had cancellations of contracts during the fiscal year that were not reported in HUD's Form 50058.	Will implement review process, where the supervisory staff will verify and authorize action on 50058 Family Report.	None	Condition corrected

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF PONCE

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Finding Number	Program	Noncompliance	Corrective Action	Questioned Cost	Status
2005-15 (FA) Reasonable rent	SECTION 8 HOUSING CHOICE VOUCHER (CFDA NO. 14871)	Files examined have the annual income calculated incorrectly.	Will implement review process, where the supervisory staff will verify and authorize action on 50058 Family Report.	Not determinable	Condition still prevail
2005-16 (FA) Housing quality standards enforcement	SECTION 8 HOUSING CHOICE VOUCHER (CFDA NO. 14871)	The inspection report failed and was not corrected in the same frame, and no evidence was found of PHA approved time extension waiver and cancellation of payment or contract	A retraining session will be scheduled to emphasize the seriousness of the follow-up inspection.	Not determinable	Condition still prevail

Commonwealth of Puerto Rico
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>PART II - FINANCIAL STATEMENTS FINDINGS SECTION</p> <p><i>(All of the following findings are considered to be reportable conditions. Those that are material weaknesses (MW) are labeled as such.)</i></p> <p><u>Finding number 2007-01 (FS) -</u> Operating deficit of general fund</p> <p><u>Condition</u> The Municipality's system of internal control relating to the budgeting function does not provide financial resources in a deficit reserve account to amortize the accrued deficit shown in the general fund (Mayor's fund). The</p>	<p>Our municipality will continue taking appropriate measurements to control the expenditure and decrease the accumulated deficit.</p> <p>Such measurements will include decrease the expenditures and</p>	<p>Partially Corrected</p>	<p>Mrs. Myrna Ortiz Alvarado Finance and Budget Director</p>	<p>During Fiscal Year 2007-2008</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Hon. Francisco Zayas Seijo, Mayor

March 28, 2008
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<p>Municipality closed its fiscal years ended June 30, 2007 and 2006 with a general fund deficiency of approximately \$20.2 and \$17.9 millions, respectively.</p> <p><u>Recommendation</u></p> <p>We recommend it evaluates the adequacy of the provision for deficit reserve accounts in the next budget for the amortization of public debt as recommend 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.</p>	<p>identify additional revenues and resources, including additional federal funds.</p> <p>For the fiscal year 2008-2009, the deficit amortization provision will be significantly increased.</p>			

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Finding number 2007-02 (FS) – Accounting management system (MW)</u></p> <p><u>Condition</u></p> <p>During our tests of the financial accounting system of the Municipality, we noted that the computerized system of accounting does not provide for adequate and effective financial information. As a consequence, the finance and budget department personnel should use spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation. For example, capital assets and long-term debt analysis were prepared using the spreadsheet software.</p>	<p>During this year our municipality acquired licenses for the installation of SAP-ERP system, which will include the necessary modules to achieve adequate and effective financial information in the accounting system, regarding capital assets and long-term debts.</p> <p>Adequate supervision and orientation will be given to the personnel responsible to prepare the bank reconciliations to avoid the differences mentioned in this finding.</p>	<p>Partially Corrected</p>	<p>Mrs. Myrna Ortiz Alvarado Finance and Budget Director Mr. José Martínez, Information System Division Director</p>	<p>During Fiscal Year 2007-2008</p>

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Contact Person: **Mrs. Myrna Ortiz, Finance and Budget Director**

Phone: **(787) 284-4141, ext. 2114**

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>We recommend financial trainings to the accountants in charge in the preparation of financial and statistical reports to ascertain that the accounting system comply with legal requirements and governmental accounting pronouncements.</p>				
<p><u>Finding number 2007-03 (FS) -</u> Municipal license tax revenues (MW)</p> <p><u>Condition</u></p> <p>We have performed audit procedures to forty-one (41) municipal license tax returns (the tax return) and noted that one (1)</p>				

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>taxpayer file did not was available for test.</p> <p><u>Recommendation</u></p> <p>We recommend that the Municipality should train their personnel working with the review of the tax returns filed adequately, including at the supervisory level.</p> <p><u>Finding number 2007-04 (FS) – Construction licenses permits/excise taxes (MW)</u></p> <p><u>Condition</u></p> <p>We have performed audit procedures to thirteen (13) construction excise taxes files and noted the following exceptions:</p>	<p>The personnel working with the review of the tax returns filed adequately, including at the supervisory level will be trained.</p>	<p>Partially Corrected</p>	<p>Mrs. Myrna Ortiz Alvarado Finance and Budget Director Mrs. Olga Velázquez Municipal Licenses Tax Supervisor</p>	<p>During Fiscal Year 2007-2008</p>

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>1. Two (2) files selected were not available for our examination and accordingly, we were unable to evaluate the following documents: Declaration of Construction Activity, Construction Permits, and Notice for requirement of Permits Issued. As a consequence, we can not recomputed the applicable construction excise taxes calculated by the Municipality.</p>	<p>The Permits Office has been instructed about the necessity to improve filing system and maintain adequate control over the files.</p>	<p>Partially Corrected</p>	<p>Mrs. Myrna Ortiz Alvarado Finance and Budget Director Mr. Modesto Delgado Permit Office Director</p>	<p>During Fiscal Year 2007-2008</p>
<p>2. Two (2) auxiliary receipts did not possible trace to official receipt, daily cash collections, deposit slip, and bank statement.</p>	<p>The daily cash collections reports, deposit slip and related documents are properly filed.</p>	<p>Corrected</p>	<p>Mr. Rafael H. Lugo Municipal Treasurer</p>	<p>During Fiscal Year 2007-2008</p>

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<u>Recommendation</u> The Permits Office in conjunction with the Finance and Budget Department should strengthen the Municipality's internal controls procedures to assure that the construction excise taxes files are complete and comply with the applicable ordinance.				
<u>Finding number 2007-05 (FS) – Contract procurement process (MW)</u> <u>Condition</u> We have performed audit procedures to nine (9) contracts adjudicated during the year for various services with their respective supporting documents and noted the following exceptions:				

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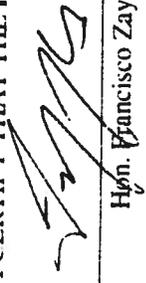
Audit Period: July 1, 2006 – June 30, 2007 (Fiscal year 2006 – 2007)

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>1. In two (2) contracts examined, the Certification of Funds issued by the Budget Department was prepared after the contract was signed and dated, and in two (2) of them the Certification of Funds has not dated.</p> <p>2. One (1) contract examined, the clause of no convict for crimes against the government was not included.</p> <p>3. In one (1) contract examined, the clause of no receiving salary payments from other governmental agency was not included.</p>	<p>In October 2007 the Finance Department established a new procedure to track contract since they arrive at the office until are registered in the Office of the Controller of Puerto Rico.</p> <p>This procedure has allowed us to fulfill the requirement to register the contracts in 15 days.</p> <p>The Finance Department will take the suitable corrective actions to achieve that the contracts contain all the necessary clauses, information and certifications.</p>	<p>Partially Corrected</p>	<p>Mrs. Myrna Ortiz Alvarado Finance and Budget Directors</p>	<p>During Fiscal Year 2007-2008</p>

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality should evaluate its internal controls procedures periodically to ascertain that it complied with the laws and regulations in force.</p>				
<p>FEDERAL PROGRAM - HEAD START (CFDA No. 93.600)</p> <p>Finding number 2007-01 (FA) - Earmarking (H) (MW)</p> <p><u>Condition</u></p> <p>Pursuant to the final Financial Assistance Award for the budget period from January 1 to December 31, 2006, the approved budget was \$12,163,144 for a client population of 1,752, representing \$6,942.43 per child.</p>	<p>Appropriate actions to correct the conditions indicated will taken after evaluate the causes for the finding.</p>	<p>Pending</p>	<p>Mrs. Damaris Suliveres Head Start Program Director</p>	<p>During Fiscal Year 2007-2008</p>

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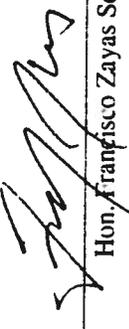
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<p>An unobligated balance of federal funds for \$222,828 resulted in Financial Status Repost for this budget period. The enrollment included in the proposal for this budget period was 1,680 children. However, the active enrollment was 1,634 children. The enrollment deficiency of 46 children caused that the Program received approximately \$96,524 in excess for this budget period.</p> <p><u>Recommendation</u></p> <p>The Municipality should take the appropriate actions to correct the conditions indicated above to achieve compliance with federal program requirements.</p>				

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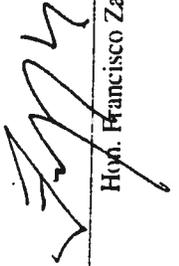
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<p><u>Finding number 2007-02 (FA) - Contract provisions (1)</u></p> <p><u>Condition</u></p> <p>We have performed audit procedures to seven (7) contracts and noted that all of them were submitted to Office of the Controller of Puerto Rico after the required 15 days and did not include the Certification for Suspension and Debarment.</p> <p><u>Recommendation</u></p> <p>We recommend that the Municipality should take the necessary actions to require to the Municipality Legal Division the implementation of the provisions established in the federal regulations.</p>	<p>In October 2007 the Finance Department established a new procedure to track contract since they arrive at the office until are registered in the Office of the Controller of Puerto Rico.</p> <p>This procedure has allowed us to fulfill the requirement to register the contracts in 15 days.</p> <p>Since 2004, the program implemented a process to verify that these contractual services were not included in the Debarment and Suspension List of the Federal Government, using the internet address http://cpl.armet.gov/index.html or by requiring information from</p>	<p>Partially Corrected</p>	<p>Mrs. Myrna Ortiz Alvarado Finance and Budget Director Mrs. Ivelisse González, Contracts Coordinator</p> <p>Mrs. Damaris Suliveres Head Start Program Director</p>	<p>During Fiscal Year 2007-2008</p> <p>During Fiscal Year 2007-2008</p>

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<p>FEDERAL PROGRAM - HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA No 93.914)</p> <p>Finding number 2007-03 (FA) - Accounting management system (L)(MW)</p> <p><u>Condition</u></p> <p>The Municipality has no an effective accounting system procedures to ensure the timely</p>	<p>the Division of External Resources of the Puerto Rico Justice Department. However, a confirmation sheet from the Debarment and Suspension address for all contracts is obtaining since July 2006.</p>			
<p>This year the program will acquire an accounting program, which will provide the necessities modules to</p>				

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<p>and accurate reconciliation of the accounting records maintained by the program compared to those records maintained by the Finance and Budget Department. All expenditures activities as payroll, fringe benefits and contractual services were recorded in only two accounts; miscellaneous and prior year expenditures. Also, the program does not maintain a formal set of accounting books and accounts, with complete information regarding the program assets, liabilities, obligations and unobligated balances. The financial data is maintained in electronic spreadsheets.</p> <p><u>Recommendation</u></p> <p>The Municipality should implement monthly reconciliations of the transactions</p>	<p>assure the timely and accurate reconciliation of the accounting record maintained by the program with those maintained by the Finance and Budget Department.</p> <p>The Finance and Budget Department will maintain frequent communication with the program personnel to assure the adequate implementation of the accounting program and the timely and proper preparation of the federal financial reports.</p>	<p>Partially Corrected</p>	<p>Mrs. Myrna Ortiz Alvarado Finance and Budget Director Mr. Luis A. Morales Ryan White Program Director</p>	<p>During Fiscal Year 2007-2008</p>

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<p>recorded in the program with the transactions processed and recorded in the central accounting department. Also, it should ensure that all federal financial reports are prepared based on the reconciled information.</p>				
<p><u>Finding number 2007-04 (FA) - Cash management (C) (MW)</u> <u>Condition</u> During the fiscal year 2006-2007, the monthly bank balance of the checking account of the program ranging from \$33,198 to \$126,044 and the books balance ranging from \$25,673 to \$49,538.</p>	<p>The Finance and Budget Department will evaluate the adequate measurements need to avoid excessive cash balances in the bank account and will establish guidelines procedures to control the request for cash advance.</p>	<p>Partially Corrected</p>	<p>Mrs. Myrna Ortiz Alvarado Finance and Budget Director</p>	<p>During Fiscal Year 2007-2008</p>
<p><u>Recommendation</u> We recommend that the Municipality should take the necessary actions on disburse funds within the time constraints</p>				

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<p>imposed by the federal requirement.</p>				
<p><u>Finding number 2007-05 (FA) - Matching. Level of Effort, Earmarking (MW)</u> <u>Condition</u> The Program prepare a WICY expenditures worksheet to determine the distribution of expenditures and the percentage to be used for providing services to women, infants, children and youth. During our audit, we performed test to this worksheet and noted certain differences between the worksheet and the accounting records.</p>	<p>In the new fiscal year the program will implement the data base program CARE Ware and will realize fiscal monitoring, in order to eliminate the statistical and accounting errors mentioned in this finding.</p>	<p>Partially Corrected</p>	<p>Mr. Luis A. Morales Ryan White Program Director</p>	<p>During Fiscal Year 2007-2008</p>

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>We recommend that the administration of the program to exercise greater control over the agencies and service providers to ensure that all submitted the required reports.</p>				
<p>Finding number <u>2007-06 (FA) – Procurement procedures (1)</u></p> <p><u>Condition</u></p> <p>We examined eight (8) contracts and noted that they did not include the Bird-Anti-Lobbying Certification.</p>	<p>Beginning this new program year, the program management will require the Bird-Anti-Lobbying Certification to all contractors who apply or bid for an award of \$100,000 or more.</p>	<p>Pending</p>	<p>Mr. Luis A. Morales Ryan White Program Director</p>	<p>During Fiscal Year 2007-2008</p>
<p><u>Recommendation</u></p> <p>We recommend that the Municipality should request the Byrd-Anti-Lobbying certification</p>	<p>The Proposal Development Guidelines for Requests of Funds will be revised to include the</p>	<p>Pending</p>	<p>Mr. Luis A. Morales Ryan White Program Director</p>	<p>During Fiscal Year 2007-2008</p>

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
from the agencies service providers, and verify the entity's compliance with laws and regulations.	request of federal assurance certifications, as of Equal Employment Opportunity, Byrd Anti-Lobbying, Debarment and Suspension and Drug Free Center.			
<u>Finding number 2007-07 (FA) - Reporting (L) (MW)</u> <u>Condition</u> The following financial and special reports were submitted to the grantor agency after the elapsed time required for submission:				

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Commonwealth of Puerto Rico
MUNICIPALITY OF PONCE
 Ponce, Puerto Rico

CORRECTIVE ACTION PLAN

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

Principal Executive: Hon. Francisco Zayas Seijo, Mayor Audit Period: July 1, 2006 – June 30, 2007 (Fiscal year 2006 – 2007)

Contact Person: Mrs. Myrna Ortiz, Finance and Budget Director Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>1. Financial Status Report: Submitted on October 15, 2007, three months after the extension period granted. It does not reconcile with the accounting records for \$113,308</p> <p>2. Annual Progress Report: Submitted on August 1, 2007 thirty three (33) days after the due date of 120 days after the end of budget period (February 28, 2007).</p> <p><u>Recommendation</u></p> <p>The Municipality should ascertain that comply with the terms and conditions established in the notice of grant award, and perform required reconciliations of financial information.</p>	<p>With the implementation of the accounting program mentioned in the finding number 3, we expect achieve proper reconciliation between the financial reports and accounting records and timely submission of the financial and special reports to the grantor agency.</p>	<p>Partially Corrected</p>	<p>Mr. Luis A. Morales Ryan White Program Director</p>	<p>During Fiscal Year 2007-2008</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



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<p>Finding number 2007-08 (FA) - Sub-recipient monitoring (M) (MW)</p> <p><u>Condition</u></p> <p>We have performed audit procedures to the program monitoring review process, and did not observe evidence that the program performed fiscal and programmatic monitoring to the service provider financial and accounting records.</p> <p><u>Recommendation</u></p> <p>We recommend that the Municipality should establish adequate procedures to perform fiscal and programmatic sub-recipient monitories.</p>	<p>In march 2008 a monitor was contracted by the program to perform fiscal and programmatic monitoring to the service providers.</p>	<p>Corrected</p>	<p>Mr. Luis A. Morales Ryan White Program Director</p>	<p>During Fiscal Year 2007-2008</p>

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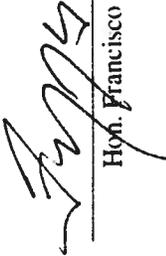
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<p>FEDERAL PROGRAM - COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT (CFDA No 14.218)</p> <p><u>Finding number 2007-09 (FA) - Contract procurement process (I) (MW)</u></p> <p><u>Condition</u></p> <p>In eight (8) contracts tested, we found the following exceptions:</p> <p>I. One (1) contract without Byrd-Anti-Lobbying certification.</p>	<p>The program management will require the Bird-Anti-Lobbying Certification to all contractors who apply or bid for an award of \$100,000 or more.</p>	<p>Partially Corrected</p>	<p>Mr. Jorge Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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<p>2. Eight (8) contracts without evidence of Certification of 'Suspension and Debarment'.</p> <p>3. Eight (8) contracts without evidence of verified in the Excluded Parties List (EPL).</p> <p><u>Recommendation</u></p> <p>We recommend that the Municipality should request the certifications of suspension and debarment and Byrd-Anti-Lobbying from the agencies service providers, local certifications; local contract provisions required by state laws and verify the entity's eligibility in the Excluded Parties List System Website.</p>	<p>Also, the program will request to all agencies service provider the required Certification of 'Suspension and Debarment'.</p> <p>Since July 2007 the entity's eligibility in the Excluded Parties List System Website is verified for all contracts.</p>			

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<p>FEDERAL PROGRAM - HOME INVESTMENT PARTNERSHIP PROGRAM (CFDA No 14.239)</p> <p>Finding number <u>2007-10 (FA) - Cash management (C) (MW)</u></p> <p><u>Condition</u></p> <p>During our cash management test, we selected fourteen (14) checks for test and noted the following exceptions:</p> <p>1. Two (2) checks prepared without evidence of pickup or send date by the supplier and participant which avoid corroborate time elapsing payment procedures.</p>	<p>The Program Official responsible for the deliver or send the checks to the supplier or participants, will be oriented about the necessity of annotate the deliver or sending date</p>	<p>Pending</p>	<p>Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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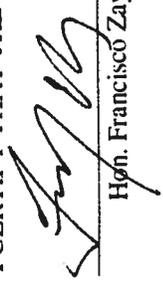
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<p>according of these we couldn't evaluate cash management compliance requirement.</p> <p><u>Recommendation</u></p> <p>The Municipality must maintain an effective internal control over who is the Program official to be responsible for delivering the check in person or by mail and keep track on them.</p>	<p>of each check in the register established to such purpose.</p>			
<p>Finding number <u>2007-11 (FA)</u> -- Davis Bacon's Act (D) (MW)</p> <p><u>Condition</u></p> <p>We evaluated the only contract of construction that took place during the fiscal year 2006-07, and noted the following:</p>			<p>Jorge L. Morales</p>	<p>During Fiscal Year</p>

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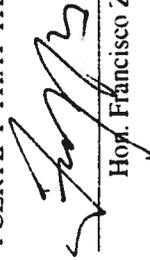
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<p>1. Contract without contract provision for Payment of Prevailing Wages.</p> <p>2. Three (3) payroll certification without evidence that was monitored and evaluated by the payment official examiner.</p> <p>3. The rate per hour paid by the contractor to a Truck Driver was below the required minimum amount of \$5.30 per hour.</p> <p>4. One (1) payroll certification without the contractor signature.</p>	<p>The program will create a list of all the clauses that should have the constructions contract, including those mentioned in this finding, which will be included as an addendum in future construction contracts.</p> <p>In order strengthen the program's internal control related to the approval of documents to support the disbursement, the personnel responsible for review the documentation for disbursement will be oriented about the necessity to exam meticulous all documents required to the disbursements to assure this completeness and correction.</p>		DEC Director	2007-2008

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<u>Recommendation</u> <p>The Municipality must create a list of all the clauses that should have the constructions contract and in addition strengthen its internal control in the approval of documents to support the disbursement.</p>				
<p>Finding number <u>2007-12 (EA) - Accounting Record (L) (MW) Period of Availability of Funds (H)</u> <u>Condition</u> 1. We evaluate the list of contract that were issued for the fiscal year 2006-07 and belonged to the obligations required by HUD according to the commitment 2005 and noted</p>	<p>The Finance and Budget Department with the Program's Official collaboration, will review the current procedures to insure information is appropriately entered in IDIS and Accounting Record Systems.</p>	<p>Pending</p>	<p>Mrs. Myrna Ortiz Alvarado Finance and Budget Director Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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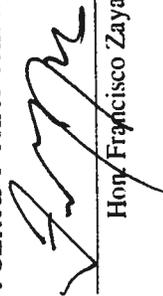
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<p>the following: (a) the commitment transactions recorded in IDIS report (C-04PR27) at July 31, 2007 have difference between the encumbrances reported in the program's accounting records. The program's accounting records present more obligations.</p> <p>2. In twenty (20) contracts examined, we found the following exceptions:</p> <p>a. Two (2) contracts were not obligated in IDIS report system by the actual amount. The Municipality obligates the contract for an amount greater than the actual.</p>				

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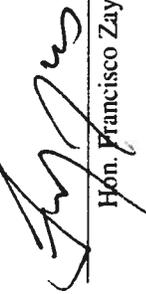
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<p>b. One (1) contract was obligated by the same amount of \$40,000.00 twice in the accounting system of the program.</p> <p><u>Recommendation</u></p> <p>The Municipality should improve the accounting system procedures for compliance of the standards required by the federal regulations.</p>				
<p>Finding number 2007-13 (FA) – Sub recipient Monitoring (M) (MW)</p> <p><u>Condition</u></p> <p>We evaluated the only monitoring issued during the fiscal year 2006-07, and noted the following:</p>				

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<p>1. Monitoring Letter: We could not evaluate if the monitoring letter was sent to sub-recipients before 30 calendar days of the first visit of the auditors, since there is no evidence they were visits by the auditor.</p> <p>2. Preparing the Evaluation: The audit did not have a budget approved for the period being audited that indicates the kind of test which are required accordingly to the verify compliance.</p> <p>3. Follow Up on Findings & Consulting: At March 10, 2008, the monitoring officer has not reviewed and evaluated the corrective action plan issued by the sub-recipients.</p>	<p>In order to improve the efficiency of the monitoring procedures and to achieve that immediate actions be taken over the findings, the Finance and Budget Department and the Internal Audit Office will offer to the programs personnel responsible to monitor to the sub recipients, orientation about adequate audit procedures to realize</p>	<p>Partially Corrected</p>	<p>Mrs. Myrna Ortiz Alvarado Finance and Budget Director Mrs. Lilliam E. Santiago Internal Audit Director Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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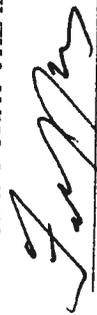
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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality should strengthen its monitoring procedures and internal control to take immediate action over the use of federal funds as required by federal regulations.</p>				
<p>Finding number <u>2007-14 (FA) – Drawdown of Fund Home (N) (MW)</u></p> <p><u>Condition</u></p> <p>We evaluated fourteen (14) drawdowns and noted the following:</p> <p>1. A drawdown number 1307258 did not have the signature of the officer who prepared the request.</p>	<p>In order strengthen the program's internal control related to the approval of documents to support the disbursement, the personnel responsible for review the documentation for disbursement will be oriented about the necessity to exam meticulous all documents required to the disbursements to</p>	<p>Partially Corrected</p>	<p>Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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<p>2. In the cash request number 1425064, we noted that the drawdown was approved and authorized by the same officer.</p> <p><u>Recommendation</u></p> <p>The Municipality should improve its internal control procedures over drawdown set-up procedures in order to comply with federal regulations.</p>	<p>assure this completeness and correction.</p>			
<p>FEDERAL PROGRAM SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)</p> <p>Finding number 2007-15 (FA) – Participant Eligibility (E) (MW)</p>				

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<p><u>Condition</u></p> <p>We have performed an eligibility test to forty (40) participants' files and, accordingly observed the following exceptions:</p> <ol style="list-style-type: none"> Two (2) files examined did not include evidence of income. Five (5) files examined did not include evidence of US Citizenship Declaration Form. Eight (8) files examined did not indicate if the family is US or Immigration Citizenship in the Declaration Form. Nine (9) files examined did not include evidence of Authorization for Release of Information/Privacy Act Notice. 	<p>Since January 2008, the program has a new director, who immediately identified situations as mentioned in this finding. In order to strengthen the established internal control related to review of documents required to the participants, the existing checklists have been revised to assure that the technical personnel responsible to obtain and evaluate the documentation, maintain complete and organized files for each case and contain all the necessary to evidence that participants meet the eligibility requirements established by federal program.</p>	<p>Partially Corrected</p>	<p>Mr. Jorge L. Morales DEC Director Jason Vega, Supervisor</p>	<p>During Fiscal Year 2007-2008</p>

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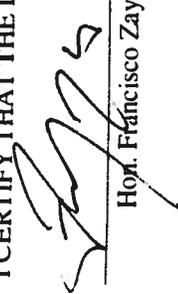
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<p>4. Three (3) files examined did not include Sworn Statement, which specified that the participant does not have Value of Assets.</p> <p>5. Ten (10) files examined did not include evidence of Drug Free Certification.</p> <p>6. Three (3) files examined did not include evidence of Family Department Certification (PAN).</p> <p>7. Three (3) files examined did not include evidence of ASUME Certification.</p> <p>8. Two (2) files examined did not include HAP Contract that applied to fiscal year 2006 or contract extension applied until June 30, 2007.</p>	<p>Technical personnel are being train on documentation and verification process.</p> <p>As an internal control to supervise the work made by the technical and inspection personnel, the program's director have established the use of a sheet entitled "Supervisor Internal Control Evaluation", which will permit evaluate the file content and the reports accuracy. The program director will evaluate four (4) cases per technical a week.</p>			

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<p>9. Six (6) HAP Contract with be issued and signed after the annual reexamination date.</p> <p>10. Four (4) files examined did not indicate in the Housing Choice Voucher Contract Utilities Allowance and one (1) file examined did not include evidence of the utilities expense and the annual reexamination includes "Utilities Allowance".</p> <p>11. Three (3) files examined did not include evidence of Lease for Voucher Tenancy. Six (6) files examined have the Lease for Voucher Tenancy (issued and signed) after the annual reexamination applied to fiscal year 2006.</p>				

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<p>12. One (1) Residential lease and Tenancy Addendum without "Owner" signature.</p> <p>13. Three (3) files examined did not include evidence of family members' Birth Certificates.</p> <p>14. One (1) file examined did not include evidence of Department of Labor Certification for all members of 18 years old and up.</p> <p>15. One (1) file examined did not include evidence of Department of Treasury debt certification and three (3) files examined did not include evidence that the participant filed the income tax return for the last five years.</p>				

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CONDITION AND RECOMMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
16. Seven (7) files examined did not include evidence of Credit Information Authorization.				
17. Four (4) files examined did not comply with the timing requirement to initiate the reexamination verification procedures.				
<u>Recommendation</u> The Municipality should establish strengthen internal supervisory quality controls to monitor performance, ensure compliance with these procedures, and train staff on documentation and verification process.				
Finding number <u>2007-16 (FA)</u> -- Financial Reporting (L) (MW)				

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<u>Condition</u> In our test over "Voucher for Payment of Annual Contribution and Operation Statement Report" versus accounting records, we noted the following difference: 1. In the period covered from July 1, 2006 to September 30, 2006 the following items reported certain differences: a. The Voucher Unit b. The HAP Voucher Expenses c. The "Portability Out" HAP Voucher Expense d. The "Portability In" HAP Voucher Expense e. The Administrative Expenses	Actually, the program is implementing the MIP Accounting Program, which contains adequate procedures for the timely conciliation of federal fund reports with the accounting records.	Partially Corrected	Mr. Jorge L. Morales DEC Director	During Fiscal Year 2007-2008

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Principal Executive: Hon. Francisco Zayas Seijo, Mayor

Audit Period: July 1, 2006 – June 30, 2007 (Fiscal year 2006 – 2007)

Contact Person: Mrs. Myrna Ortiz, Finance and Budget Director

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>2. In the period covered from October 1, 2006 to December 31, 2006 the following items reported certain differences:</p> <ul style="list-style-type: none"> a. The Voucher Unit b. The HAP Voucher Expenses c. The "Portability In" Voucher Unit d. The "Portability In" HAP Voucher Expense e. The Administrative Expenses <p>3. In the period covered from January 1, 2007 to June 30, 2007 the following items reported certain differences:</p> <ul style="list-style-type: none"> a. The Administrative Expenses 				

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Hon. Francisco Zayas Seijo, Mayor

March 28, 2008
Date

Commonwealth of Puerto Rico
MUNICIPALITY OF PONCE
Ponce, Puerto Rico

CORRECTIVE ACTION PLAN

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality should take appropriate actions to reconcile in a timely manner; the federal finds reports with the accounting records in order to procedure reliable financial data.</p>				
<p>Finding number 2007-17 (FA) – Special Reporting (L and E) (MW)</p> <p><u>Condition</u></p> <p>We have performed compliance test to forty (40) participants' files and we noted the following situations:</p> <p>1. Three (3) files examined, items 5h "Date of Last Annual HQC Inspection" and 5i "Unit Inspection Date" in HUD's</p>	<p>As indicated in the corrective action to the finding number 15 the existing checklists have been revised to assure that the technical</p>	<p>Partially Corrected</p>	<p>Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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Hon. Francisco Zayas Seijo, Mayor

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>Form 50058 were not completed.</p> <p>2. One (1) file examined, item 5h "Date of Last Annual HQC Inspection" in HUD's Form 50058 was not completed</p> <p>3. In five (5) files examined, we noted that the annual income reported in HUD's Form 50058 was calculated incorrectly.</p> <p><u>Recommendation</u></p> <p>The Municipality should strengthen review procedures of the information recorded in HUD's Form-50058, Family Report.</p>	<p>personnel responsible to obtain and evaluate the documentation, maintain complete and organized files for each case and contain all the necessary to evidence that participants meet the eligibility requirements established by federal program. The technical personnel are being train on documentation and verification process and the program's director established the use of a sheet entitled "Supervisor Internal Control Evaluation", to evaluate the file content and the reports accuracy.</p>			

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Hon. Francisco Zayas Seijo, Mayor

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Contact Person: Mrs. Myrna Ortiz, Finance and Budget Director Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>Finding number <u>2007-18 (FA) – Performance Reporting (L) (MW)</u></p> <p><u>Condition</u></p> <p>During the assessment of SEMAP Certification HUD-52648 Report, we noted that the indicator of reasonable rent was incorrectly computed. The Municipality indicated that met at least 98% of the units and according to the audit the indicator had to be 80% to 97% of units' sample.</p> <p><u>Recommendation</u></p> <p>The Municipality must make a reasonable sample in their tests and should consider all criteria that affect the determination of reasonable rent.</p>	<p>The technical personnel are being train on documentation and verification process and the Program's Director established the use of a sheet entitled "Supervisor Internal Control Evaluation", to evaluate the file content and the reports accuracy. This internal control will allow the compliance with this indicator.</p>	<p>Partially Corrected</p>	<p>Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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Audit Period: July 1, 2006 – June 30, 2007 (Fiscal year 2006 – 2007)

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>Finding number <u>2007-19 (FA) – Reasonable Rent (N) (MW)</u></p> <p><u>Condition</u></p> <p>We have performed compliance test to forty (40) participants' files and we noted the following situations:</p> <ol style="list-style-type: none"> In two (2) files examined, there was an increase in rent to "Owner" and has no evidence of Reasonable Analysis Certification. One (1) file examined have the payment standard applied to the Family Report HUD-50058 calculated incorrectly because applied the Fair Market Value Table 2006 and was correspond the Fair Market Value Table 2007. According to the Fair Market 	<p>As indicated in the corrective action to the finding number 15 the existing checklists have been revised to assure that the technical personnel responsible to obtain and evaluate the documentation, maintain complete and organized files for each case and contain all the necessary to evidence that participants meet the eligibility requirements established by federal program. The technical personnel are being train on documentation and verification process and the program's director established the use of a sheet entitled "Supervisor Internal Control Evaluation", to evaluate the file content and the reports accuracy. This internal</p>	<p>Partially Corrected</p>	<p>Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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Hon. Francisco Zayas Seijo, Mayor

March 28, 2008
Date

Commonwealth of Puerto Rico
MUNICIPALITY OF PONCE
 Ponce, Puerto Rico

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>Value 2007, we noted in twenty one (21) files examined that the payment standard was not calculated accordance to the percentage established in the Administrative Plan approved by HUD.</p> <p><u>Recommendation</u></p> <p>The Municipality establishes review procedures to ascertain that the FMR applicable and the payment standard percentage applicable in the reexamination are computed correctly in accordance with federal regulation.</p>	<p>control will allow to correct the situations mentioned.</p>			

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Hon. Francisco Zayas Seijo, Mayor

March 28, 2008
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Ponce, Puerto Rico

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Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Finding number 2007-20 (FA) – Utilities allowance (N)</u></p> <p><u>Condition</u></p> <p>We have performed utilities allowance test to forty (40) participants' files and we noted the following situations:</p> <p>1. In one (1) file examined the utilities allowance was calculated incorrectly because the Municipality did not use the correct utilities analysis schedule applied to the fiscal year 2006.</p> <p><u>Recommendation</u></p> <p>The Municipality should establish review procedures to ascertain that tenant's utilities allowance are computed correctly in accordance with federal regulations.</p>	<p>The corrective action mentioned in the finding number 15 will allow us to correct the situations mentioned in this finding.</p>	<p>Partially Corrected</p>	<p>Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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Hon. Francisco Zayas Seijo, Mayor

March 28, 2008
Date

Commonwealth of Puerto Rico
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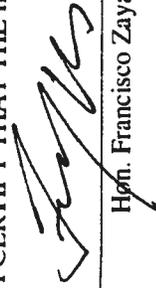
Audit Period: July 1, 2006 -- June 30, 2007 (Fiscal year 2006 -- 2007)

Contact Person: Mrs. Myrna Ortiz, Finance and Budget Director

Phone: (787) 284-4141, ext. 2114

CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Finding number 2007-21 (FA) – Housing quality standards inspections (N) (MW)</u></p> <p><u>Condition</u></p> <p>We performed test to the Housing Quality Standard Inspection in forty seven (47) participants' files and we noted that in eleven (11) files there are no evidence of the inspection reports applicable for the fiscal year 2006-07.</p> <p><u>Recommendation</u></p> <p>The Municipality should strengthen procedures to ascertain that all tenant's rented units are inspected for HQS at least one annually.</p>	<p>The corrective action mentioned in the finding number 15 will allow us to correct the situations mentioned in this finding.</p>	<p>Partially Corrected</p>	<p>Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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Hon. Francisco Zayas Seijo, Mayor

March 28, 2008
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>Finding number 2007-22 (FA) – Housing quality standards enforcement (N) (MW)</p> <p><u>Condition</u></p> <p>In testing the Housing Quality Standards Enforcement procedures for Failed HQS inspections, we found the following situations in thirty three (33) participants' files examined:</p> <ol style="list-style-type: none"> 1. Twelve (12) files examined, the inspection for the fiscal year 2006 did not indicate the final date by which each step of the deficiencies found were repaired. 2. Four (4) files examined without evidence of Inspector Officer's initials in the inspection report realized for housing units. 	<p>The corrective action mentioned in the finding number 15 will allow us to correct the situations mentioned in this finding.</p>	<p>Partially Corrected</p>	<p>Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

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March 28, 2008
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>3. Four (4) files examined, the inspection report form HUD-52580 is incomplete, has areas that were not inspected and applied to the unit.</p> <p>4. Ten (10) files examined, the inspection report for the fiscal year 2006-07 indicated failed and the files did not have evidence that the deficiencies detected were corrected. We could not find evidence that the PHA took prompt and vigorous action to enforce the owner's obligation and/or cancellation of contract, within time frame required by federal regulations.</p> <p>5. Five (5) files examined the inspection report form HUD-52580 indicates that the unit has no electricity and the inspection was considered without shortcomings.</p>				

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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p>6. Eight (8) files examined, the correction of deficiencies detected in housing units exceeded the maximum time allowed (30 calendar days) and the files do not have evidence was found of that the PHA approved time extension waiver and/or cancellation of payment contract.</p>				
<p>7. Two (2) notifications sent to the owner were submitted too late which avoid that the deficiencies will be corrected on the time frame required by the federal regulations.</p>				

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March 28, 2008
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Recommendation</u></p> <p>The Municipality require the authority to inspect the units that did not meet minimum housing quality standard to verify that the owner and the tenant took appropriate corrective actions to make the unit repairs, if appropriate actions were not taken, the Municipality should abate the rents or terminate the housing assistance payment contract. In addition, the Municipality needs to implement internal controls and perform quality controls which ensure that units are inspected in a timely manner and inspections are accordance with its administrative plan and HUD requirement.</p>				

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Hon. Francisco Zayas Seijo, Mayor

March 28, 2008
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CONDITION AND RECOMENDATION	CORRECTIVE ACTION	RESULTS OR STATUS	RESPONSIBILITY	TIMETABLE
<p><u>Finding number 2007-23 (FA) – Housing assistance payment (N) (MW)</u></p> <p><u>Condition</u></p> <p>We have performed the Housing Assistance payment test to forty (40) participants' files and we noted that in one (1) file examined, the rent payments were not made on behalf of owner as indicated in the contract.</p> <p><u>Recommendation</u></p> <p>The Municipality should strengthen internal control procedures about the disbursement processing area.</p>	<p>The corrective action mentioned in the finding number 15 will allow us to correct the situations mentioned in this finding.</p>	<p>Partially Corrected</p>	<p>Mr. Jorge L. Morales DEC Director</p>	<p>During Fiscal Year 2007-2008</p>

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. Francisco Zayas Seijo, Mayor

March 28, 2008
Date

COMISIONADO DE LA OFICINA DE LA COMISIONADO

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RECIBIDO
UNIDAD DE CORREO

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ESTADOS FINANCIEROS	
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HECTOR SILVA DIAZ, CPA
Urb. Flamboyanes
1806 calle Laurel
Ponce PR 00716-4607

INFORME DEL AUDITOR INDEPENDIENTE

Junta de Directores
**CORPORACION PATRONATO PARA EL
DESARROLLO CULTURAL Y TURISTICO DE
PONCE, C.D.**
Ponce, Puerto Rico

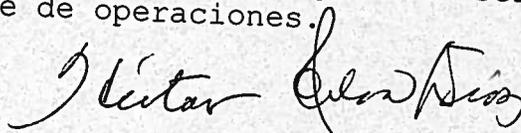
He auditado los estados de posición financiera del **Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C.D.**, al 30 de junio de 2008 y 2007 y los correspondiente estados de actividades y cambios en activos netos y flujos de efectivo, para los años terminados en dichas fechas. La responsabilidad por dichos estados financieros recae en la gerencia de la Corporación. Mi responsabilidad es la de expresar una opinión sobre estos estados financieros basada en mis auditorías.

Excepto como se explica en el próximo párrafo, mi auditoría se efectuó de acuerdo con las normas de auditoría generalmente aceptadas en los Estados Unidos de América. Dichas normas requieren que la auditoría se planifique y ejecute con el propósito de obtener una certeza razonable de que los estados financieros no contienen errores materiales. Una auditoría incluye el considerar el control interno sobre la información financiera, como una base para diseñar los procedimientos de auditoría apropiados en las circunstancias y no con el propósito de expresar una opinión sobre la eficiencia del control interno en la información financiera presentada por la gerencia. Por consiguiente, no expreso esa opinión. Una auditoría también incluye examinar, en forma de prueba, la evidencia que sostiene las cantidades y divulgaciones en los estados financieros, evaluando los principios de contabilidad usados y estimados significativos realizados por la gerencia, al igual que, evaluar la presentación general de los estados financieros. Considero que mis auditorías proveen una base razonable para mi opinión.

La gerencia decidió cambiar sus operaciones de una corporación de desarrollo, a una organización sin fines de lucro efectivo el 1 de julio de 2008, quedando así la actual Corporación inoperante.

En mi opinión, excepto por el efecto de los ajustes, si alguno, que pudieran ser necesarios, como consecuencia del cese de operaciones de la **Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C.D.**, los estados financieros mencionados anteriormente presentan razonablemente, en todos los aspectos significativos, la situación financiera de la **Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C.D.**, al 30 de junio de 2008 y 2007, así como el cambio en sus activos netos y sus flujos de efectivo para los años terminado en dichas fechas, de conformidad con los principios de contabilidad generalmente aceptados en los Estados Unidos de América.

Los estados financieros que se acompañan han sido preparados asumiendo que la Corporación continúe como negocio en marcha. Según se presenta en la Nota 7 de los estados financieros, la Corporación cesó operaciones al 1 de julio de 2008. Los estados financieros no incluyen ajuste alguno que pudiera ser necesario como consecuencia del cierre de operaciones.



Lic. No. 1101
En Vigor

30 de octubre de 2008

Estampilla No. 2373466
adherida al original

**CORPORACION PATRONATO PARA EL DESARROLLO
CULTURAL Y TURISTICO DE PONCE, C.D.**

Estados de Posición Financiera

Al 30 de junio de 2008 y 2007

ACTIVOS Y PASIVOS	2008	2007
ACTIVOS		
Efectivo		
Asignados	\$115,561	\$107,893
Sin asignar	233,234	203,580
Cuentas por cobrar	34,673	839
Inventarios (Nota 2 y 5)	27,116	50,947
Seguros pagados por adelantado	-	11,750
Propiedad y equipo - Neto (Nota 2 y 3)	378,066	418,825
Construcción en proceso (Nota 4)	<u>139,587</u>	<u>26,080</u>
TOTAL ACTIVOS	<u>\$928,237</u>	<u>\$819,914</u>
PASIVOS Y ACTIVOS NETOS		
PASIVOS		
Cuentas por pagar	\$ 34,611	\$ 16,769
Contribución sobre nómina a pagar	8,928	13,410
Gastos acumulados por pagar	75,355	62,611
Depósitos a pagar	84,755	74,484
Obligaciones a pagar (Nota 6)	<u>8,982</u>	<u>29,681</u>
TOTAL PASIVOS	212,631	196,955
ACTIVOS NETOS		
Sin asignar	600,045	515,066
Asignados	<u>115,561</u>	<u>107,893</u>
TOTAL ACTIVOS NETOS	<u>715,606</u>	<u>622,959</u>
TOTAL PASIVO Y ACTIVOS NETOS	<u>\$928,237</u>	<u>\$819,914</u>

Véase notas a los estados financieros e informe del auditor independiente.

**CORPORACION PATRONATO PARA EL DESARROLLO CULTURAL Y
TURISTICO DE PONCE, C. D.**

Estados de Actividades y Cambios en Activos Netos
Años Terminados el 30 de junio de 2008 y 2007

	NO RESTRICITOS		
	SIN ASIGNAR OPERACIONES	ASIGNADOS	
		FONDO DE MANTENIMIENTO Y MEJORAS ESTRUCTURA	2008
INGRESOS			
Servicios gerenciales	\$ 600,000		\$ 600,000
Ingresos entradas	317,053		317,053
Ventas	138,281		138,281
Alquiler facilidades	63,754		63,754
Donativos	168,616	\$ 9,227	177,843
Alquiler equipos	53,571		53,571
Actividades	15,617		15,617
Amigos Castillo Serrallés	16,152		16,152
Servicios coordinación	5,300		5,300
Intereses	2,835	7,668	10,503
Otros	<u>18,992</u>	<u>-</u>	<u>18,992</u>
TOTAL INGRESOS	1,400,171	16,895	1,417,066
			<u>23,928</u>
			1,313,454

Véase notas a los estados financieros e informe del auditor independiente.

**CORPORACION PATRONATO PARA EL DESARROLLO CULTURAL Y
TURISTICO DE PONCE, C. D.**

Estados de Actividades y Cambios en Activos Netos
Años Terminados el 30 de junio de 2008 y 2007

	<u>NO RESTRICITOS</u>		
	<u>SIN ASIGNAR OPERACIONES</u>	<u>ASIGNADOS FONDO DE MANTENIMIENTO Y MEJORAS ESTRUCTURA</u>	<u>TOTAL</u>
		<u>2008</u>	<u>2007</u>
COSTOS Y GASTOS			
Costo de venta	\$ 70,054	\$ 70,054	\$ 90,886
Administrativos	1,169,530	1,169,530	1,118,236
Depreciación	78,747	78,747	74,013
Intereses	<u>6,089</u>	<u>6,089</u>	<u>9,164</u>
TOTAL COSTOS Y GASTOS	<u>1,324,420</u>	<u>1,324,420</u>	<u>1,292,299</u>
CAMBIOS EN LOS ACTIVOS NETOS	75,751	\$ 16,895	92,646
BALANCE DE ACTIVOS NETOS, PRINCIPIO DE AÑO	<u>524,294</u>	<u>-</u>	<u>622,960</u>
BALANCE DE ACTIVOS NETOS, FIN DE AÑO	<u>\$ 600,045</u>	<u>\$ -</u>	<u>\$ 715,606</u>
			<u>\$ 622,959</u>

Véase notas a los estados financieros e informe del auditor independiente.

**CORPORACION PATRONATO PARA EL DESARROLLO
CULTURAL Y TURISTICO DE PONCE, C. D.**

Estados de Flujos de Efectivo

Años Terminados el 30 de junio de 2008 y 2007

	2008	2007
FLUJO DE EFECTIVO DE ACTIVIDADES OPERACIONALES		
Cambios en los activos netos	\$ 92,646	\$ 21,155
AJUSTES PARA RECONCILIAR LOS CAMBIOS EN LOS ACTIVOS NETOS CON EL EFECTIVO PROVISTO POR LAS ACTIVIDADES OPERACIONALES:		
Depreciación	78,747	74,013
(Aumento) Disminución en:		
Cuentas a cobrar	(33,834)	1,342
Construcción en proceso	(113,506)	(26,080)
Inventario	23,830	35,427
Gastos pagados por adelantado	11,750	(11,750)
Aumento (Disminución) en:		
Cuentas a pagar	17,842	(21,983)
Contribuciones sobre nómina	(4,481)	3,520
Gastos acumulados	12,744	6,709
Depósitos a pagar	<u>10,270</u>	<u>9,608</u>
TOTAL AJUSTES	3,362	70,806
EFECTIVO PROVISTO POR ACTIVIDADES OPERACIONALES	96,008	91,961
FLUJO DE EFECTIVO DE LAS ACTIVIDADES DE INVERSION		
Adquisición de activos fijos	(42,027)	(42,931)
Disposición de activos fijos	<u>4,039</u>	<u>-</u>
EFECTIVO USADO EN ACTIVIDADES DE INVERSION	(37,988)	(42,931)
FLUJO DE EFECTIVO DE LAS ACTIVIDADES DE FINANCIAMIENTO		
Pagos a obligaciones	<u>(20,699)</u>	<u>(30,652)</u>
EFECTIVO USADO EN ACTIVIDADES DE FINANCIAMIENTO	<u>(20,699)</u>	<u>(30,652)</u>

Véase notas a los estados financieros e informe del auditor independiente.

**CORPORACION PATRONATO PARA EL DESARROLLO
CULTURAL Y TURISTICO DE PONCE, C.D.**

Estados de Flujos de Efectivo

Años Terminados el 30 de junio de 2008 y 2007

	2008	2007
AUMENTO (DISMINUCION) EN EFECTIVO	\$ 37,321	\$ 18,378
EFECTIVO		
A principio de año	<u>311,474</u>	<u>293,095</u>
A final de año	<u>\$348,795</u>	<u>\$311,473</u>
INFORMACION SUPLEMENTARIA DE LOS ESTADOS DE FLUJO DE EFECTIVO:		
Intereses pagados	<u>\$ 6,089</u>	<u>\$ 9,164</u>

Véase notas a los estados financieros e informe del auditor independiente.

CORPORACION PATRONATO PARA EL DESARROLLO CULTURAL Y TURISTICO DE PONCE, C. D.

Notas a los Estados Financieros

Al 30 de junio de 2008 y 2007

NOTA 1 ORGANIZACION

La **Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C.D.** (denominado en adelante **Corporación Patronato**) es una corporación de desarrollo organizada y creada al amparo de la Ley de Municipio Autónomo, sin fines pecuniarios. Su objetivo, primordialmente, es conservar, proteger, y desarrollar un museo en la estructura conocida como el Castillo Serrallés, y la estructura conocida como Cruceta El Vigía de Ponce, las cuales pertenecen al Municipio de Ponce.

Desde el mes de febrero de 2002, la **Corporación Patronato**, mediante Contrato para la Delegación, Operación y Administración del Museo del Castillo Serrallés y de la Cruceta El Vigía ofrece servicios descritos por dicho contrato, a cambio de estos servicios de administración, la **Corporación Patronato** recibe una suma de dinero mensualmente para la operación de dicho museo. Dicho contrato provee que el Municipio de Ponce es responsable por el costo de servicio de agua y energía eléctrica de ésta propiedad. Este contrato venció el 30 de junio de 2008.

La **Corporación Patronato**, está exento de contribuciones sobre ingresos, sobre propiedad mueble e inmueble y de patente municipal, de acuerdo con distintas leyes del Estado Libre Asociado de Puerto Rico.

NOTA 2 RESUMEN DE LAS NORMAS DE CONTABILIDAD MAS SIGNIFICATIVAS

Presentación de los Estados Financieros

Los estados financieros de la **Corporación Patronato** han sido preparados de acuerdo con el Pronunciamiento Núm. 117 de la Junta de Normas de Contabilidad Financiera, el cual requiere que todas las organizaciones sin fines de lucro presenten un estado de posición financiera, un estado de actividades y cambios en los activos netos y un estado de flujo de efectivo.

**CORPORACION PATRONATO PARA EL DESARROLLO
CULTURAL Y TURISTICO DE PONCE, C.D.**

Notas a los Estados Financieros

Al 30 de junio de 2008 y 2007

NOTA 2

RESUMEN DE LAS NORMAS DE CONTABILIDAD MAS SIGNIFICATIVAS
CONTINUACION

El pronunciamiento también requiere la clasificación de los activos netos y sus ingresos, gastos, ganancias y pérdidas a base de la existencia o ausencia de restricciones por parte de los donantes. Por consiguiente, los activos netos de la **Corporación Patronato** y cambios en éstos, son clasificados como no restringidos.

Activos Netos No Restringidos - Sin Asignar

Fondos en los cuales la Junta de Directores tiene el control discrecional y los puede asignar o utilizar para otros propósitos dentro de la administración del Museo del Castillo Serrallés y la Cruceta el Vigía de Ponce.

Reconocimientos de Ingresos y Gastos

Los ingresos y gastos se contabilizan bajo el método de acumulación a base de año fiscal.

Inventarios

Los inventarios están valorados al costo o mercado, cual sea más bajo usando el método de FIFO (primero que entra, primero que sale).

Efectivo y Equivalente a Efectivo

Para propósitos de la presentación de los estados financieros, la corporación considera todas las inversiones altamente liquidas con vencimiento de tres (3) meses o menos como equivalente de efectivo. A la fecha de este estado no existen equivalentes de efectivo.

**CORPORACION PATRONATO PARA EL DESARROLLO
CULTURAL Y TURISTICO DE PONCE, C.D.**

Notas a los Estados Financieros

Al 30 de junio de 2008 y 2007

NOTA 2 RESUMEN DE LAS NORMAS DE CONTABILIDAD MAS SIGNIFICATIVAS
CONTINUACION

**Uso de Estimados en la Preparación de los estados
Financieros**

La preparación de los estados financieros de acuerdo con los principios generalmente aceptado de contabilidad en los Estados Unidos de América, requieren de la gerencia el hacer uso de estimados y asunciones que afectan las cantidades reportadas y divulgación de activos y pasivos contingentes a la fecha de los estados financieros y las cantidades reportadas de ingresos y gastos durante el período del informe. Los resultados finales pudieran ser distintos a los presentados en estos estados financieros.

NOTA 3 PROPIEDAD Y EQUIPO

La propiedad y equipo consiste de lo siguiente:

	<u>2008</u>	<u>2007</u>
Terrenos	\$ 65,948	\$ 65,948
Cava	6,742	6,742
Vivero	25,780	32,329
Equipo de oficina	46,188	46,189
Equipo y herramientas	59,826	66,098
Vehículo de motor	48,040	48,040
Equipo de seguridad	21,644	20,499
Equipo alquiler	57,552	52,644
Pantallas interactivas	19,174	9,757
Mobiliario de cafetería	5,111	5,111
Mejoras	104,442	88,974
Equipo programa coordinación	9,771	9,771
Equipo de decoración navideña	42,740	42,740
Colecciones	4,085	3,570
Binoculares	3,654	3,654
Equipo de computadoras	15,100	4,955

**CORPORACION PATRONATO PARA EL DESARROLLO
CULTURAL Y TURISTICO DE PONCE, C.D.**

Notas a los Estados Financieros

Al 30 de junio de 2008 y 2007

NOTA 3 PROPIEDAD Y EQUIPO - CONTINUACION

	<u>2008</u>	<u>2007</u>
Jardín japonés	\$166,969	\$166,969
Vagones	<u>6,700</u>	<u>-</u>
	709,466	673,990
Menos: Depreciación acumulada	<u>331,400</u>	<u>255,165</u>
	<u>\$378,066</u>	<u>\$418,825</u>

NOTA 4 CONSTRUCCION EN PROCESO

Las construcciones en proceso al 30 de junio de 2008 y 2007 se detallan a continuación:

	<u>2008</u>	<u>2007</u>
Vivero	\$ 30,091	\$ 24,280
Almacén	89,605	1,800
Estacionamiento	9,097	-
Villa Josefina	<u>11,094</u>	<u>-</u>
	<u>\$139,587</u>	<u>\$ 26,080</u>

NOTA 5 INVENTARIO

Los inventarios al 30 de junio de 2008 y 2007 se desglosan a continuación:

	<u>2008</u>	<u>2007</u>
Inventario de tiendas	\$ 21,290	\$ 32,148
Inventario de cafeterías	2,826	3,138
Inventario de plantas	<u>3,000</u>	<u>15,661</u>
Total	<u>\$ 27,116</u>	<u>\$ 50,948</u>

**CORPORACION PATRONATO PARA EL DESARROLLO
CULTURAL Y TURISTICO DE PONCE, C.D.**

Notas a los Estados Financieros

Al 30 de junio de 2008 y 2007

NOTA 6	<u>OBLIGACIONES A PAGAR</u>	<u>2008</u>	<u>2007</u>
	Obligación a pagar, 5.75% de interés primario. Requiere pagos mensuales de \$1,940, principal e intereses, vence en diciembre 2007	\$ -	\$11,443
	Obligación a pagar, 5.95% interés, garantizado con vehículo de motor. Requiere pagos mensuales de \$841, principal e intereses, vence en mayo 2009	<u>8,982</u>	<u>18,238</u>
	Total obligaciones	8,982	29,681
	Porción corriente	<u>(8,982)</u>	<u>(20,667)</u>
	Total a largo plazo	<u>\$ -</u>	<u>\$ 9,014</u>

NOTA 7 NEGOCIO EN MARCHA

Efectivo el 1 de julio de 2008, la gerencia decidió cambiar sus operaciones de una corporación de desarrollo, organizada bajo la Ley de Municipios Autónomos, a una organización sin fines de lucro, llamada Patronato de Ponce, Inc. Por esta razón, la **Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C.D.** cesó sus operaciones el 30 de junio de 2008.

INFORMACION SUPLEMENTARIA

**CORPORACION PATRONATO PARA EL DESARROLLO
CULTURAL Y TURISTICO DE PONCE, C.D.**

Detalle Mensual de Entradas - Castillo Serrallés

Año Terminado 30 de junio de 2008

JULIO 2007	\$ 35,550
AGOSTO	17,170
SEPTIEMBRE	11,460
OCTUBRE	11,626
NOVIEMBRE	15,165
DICIEMBRE	14,899
ENERO 2008	18,146
FEBRERO	14,756
MARZO	18,351
ABRIL	17,227
MAYO	15,994
JUNIO	<u>23,354</u>
	<u>\$213,698</u>

**CORPORACION PATRONATO PARA EL DESARROLLO
CULTURAL Y TURISTICO DE PONCE, C.D.**

Detalle Mensual de Entradas - Cruceta El Vigía

Año Terminado 30 de junio de 2008

JULIO 2007	\$ 24,975
AGOSTO	8,421
SEPTIEMBRE	5,133
OCTUBRE	4,712
NOVIEMBRE	7,414
DICIEMBRE	7,410
ENERO 2008	4,233
FEBRERO	5,909
MARZO	9,286
ABRIL	6,849
MAYO	7,712
JUNIO	<u>11,301</u>
	<u>\$103,355</u>

**CORPORACION PATRONATO PARA EL DESARROLLO
CULTURAL Y TURISTICO DE PONCE, C.D.**

Detalle de Alquiler de Facilidades - Castillo Serrallés

Año Terminado 30 de junio de 2008

JULIO	\$ 4,800
AGOSTO	2,200
SEPTIEMBRE	3,400
OCTUBRE	2,450
NOVIEMBRE	5,754
DICIEMBRE	10,050
ENERO	3,450
FEBRERO	6,300
MARZO	9,050
ABRIL	5,000
MAYO	5,400
JUNIO	<u>5,900</u>
	<u>\$63,754</u>