



*López-Vega, CPA, PSC*

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

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

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**Year Ended June 30, 2011**

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

Visit our website at [www.visitponce.com](http://www.visitponce.com)

**Hon. María E. Meléndez Altieri, Mayor**

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

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

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COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF PONCE

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

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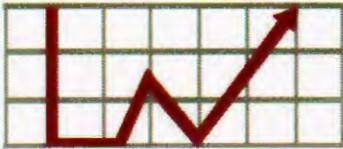
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- Puerto Rico Society of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Ponce, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2011, which collectively comprise the **Municipality's** basic financial statements, as listed in the table of contents. These 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the legally separated discrete component units, "**Port of Ponce**". Accounting principles generally accepted in the United States of America require the financial data for these component unit to be reported with the financial data of the **Municipality's** primary government unless the **Municipality** also issues financial statements for the financial reporting entity that include the financial data for its component units. The **Municipality** has not issued such reporting entity financial statements. The amount by which departure would affect the financial statements of the governmental activities is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the **Municipality's** as of June 30, 2011, or the changes in financial position thereof for the year then ended.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

In addition, in our opinion, except for the effects of omitting the legally separated discrete component units, as discussed above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the **Municipality's**, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Municipality's, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2012, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 20 and Budgetary Comparison information on page 70, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



*López-Vega, CPA, PSC*

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**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Autonomous Municipality of Ponce's** basic financial statements as a whole. 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 financial statements. The schedule of expenditures of federal awards is the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinions, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Lopez Vega, CPA, PSC*  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 28, 2012

Stamp No. 2575558 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

This discussion and analysis of the **Autonomous Municipality of Ponce** (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2011. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2010. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2010-2011 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

## **FINANCIAL HIGHLIGHTS**

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2011 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

- ❑ Total assets of the Municipality amounted to \$468,399,980 which represents an increase of 9% compared to prior fiscal year.
- ❑ At the end of fiscal year 2011, total liabilities amounted to \$367,180,922. Out of said amount, \$303,841,584 corresponded to long-term liabilities of which \$194,196,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.
- ❑ Total net assets of the Municipality amounted to \$101,219,058 which represents an increase of 1% compared to prior fiscal year, as restated.
- ❑ Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$167,448,289 derived from the following sources: \$1,614,159 from charges for services; \$44,213,998 from operating grants and contributions; \$12,244,715 from capital grants and contributions obtained from other sources, and \$109,375,417 from general revenues available.
- ❑ Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$165,998,669.
- ❑ As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$1,449,620.

### **FINANCIAL HIGHLIGHTS (CONTINUED)**

- ❑ As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$18,782,208.
- ❑ In the fund financial statements, the governmental activities revenue decreased \$2,399,589 (or 1%), nevertheless governmental activities expenditures decrease \$2,122,084 (or 1%).
- ❑ As the end of the current fiscal year, the Municipality's general fund deficit amounted to \$22,017,961 compared to a general fund deficit as restated of \$20,847,294 in the prior fiscal year, as restated.
- ❑ On a budgetary basis, the actual General Fund budgetary activities resulted in an unfavorable balance of \$13,085,286.
- ❑ As the end of the current fiscal year, the Municipality's General Fund accumulated deficit amounted to \$33,674,005 compared to a General Fund accumulated deficit of \$34,845,366 in the prior fiscal year. The accumulated deficit decrease \$1,171,361 (or 1%) compared to prior fiscal year. Previously shown in the line of Unreserved (deficit), after GASB 54 in the line Unassigned.
- ❑ The Municipality issued bonds and notes amounting to approximately \$14.5 million to finance acquisition of equipment, resurfacing of streets and roads, acquisitions of buses SITRAS (Sistema Integrado de Transporte del Sur), "Antigua Plaza del Mercado - Ponce Servicios" and "Parque Ecológico".

### **FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION**

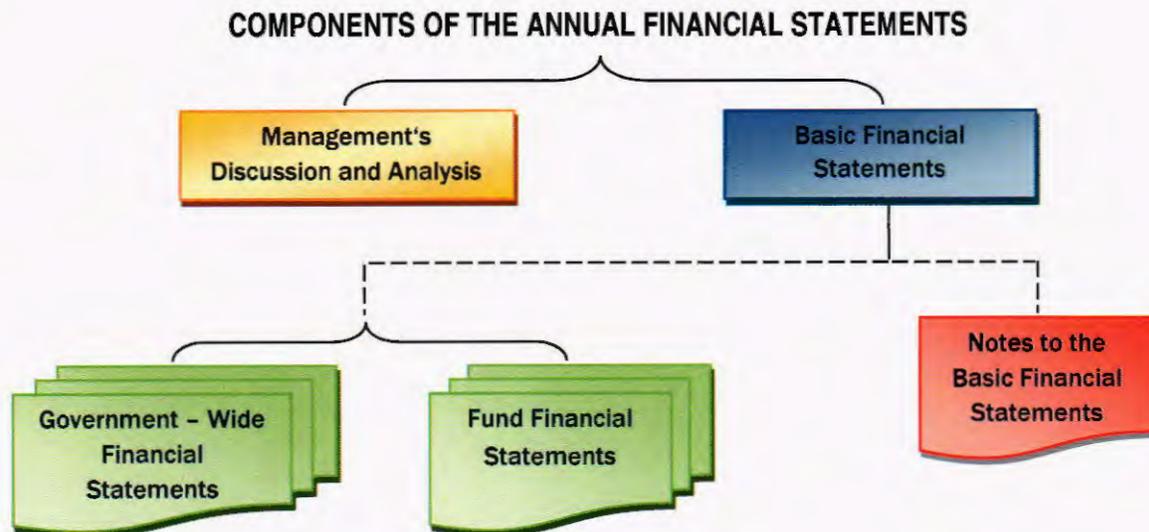
The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2010-2011. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

### **FINANCIAL STATEMENTS COMPONENTS**

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

FINANCIAL STATEMENTS COMPONENTS (continued)



**Government-Wide Financial Statements**

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

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

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

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

The government-wide financial statements can be found on pages 21 to 22 of this report.

## **FINANCIAL STATEMENTS COMPONENTS (continued)**

### **Fund Financial Statements**

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

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

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

The governmental funds financial statements can be found on pages 23 to 26 of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 30 to 69 of this report.

### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

The budgetary comparison schedule can be found on the page 70 of this report.

## **FINANCIAL STATEMENTS COMPONENTS (continued)**

### **Infrastructure Assets**

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

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

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

## **FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

### **Government-wide Financial Analysis**

#### **Assets, liabilities and net assets**

##### *Assets*

As of June 30, 2011, the Municipality's total assets amounted to \$468,399,980, an increase of \$36,852,993 when compared with the prior year. The assets exceeded its liabilities by \$101,219,058.

Capital assets include items such as infrastructure, buildings, equipment, machinery, land and other tangible items. Infrastructures include streets, sidewalks, bridges, and others. The Municipality uses capital assets to provide services to the community and thus they are not available for immediate spending. Governmental major capital assets added in 2010-2011 include Ponce "Center Convention", "Antigua Plaza del Mercado - Ponce Servicios", "Parque Ecológico" and resurfacing of streets and roads. The total costs of those projects will be estimated in \$50.00 million. Various permanent capital projects still in process amounting to \$20,159,895. During the current fiscal year the Municipality's total capital assets increased by \$14,789,843 or 4 percent.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)**

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

*Liabilities*

At the end of fiscal year 2011, total liabilities amounted to \$367,180,922. The current liabilities increased by \$34,665,443 million and at the end of the current fiscal year, the Municipality had outstanding debt (bonds) of \$194,196,000. During the current fiscal year the Municipality's long term liabilities increased by \$27,834,000 or 17 percent due to issuance of new debt.

*Net Assets*

The Statement of Net Assets serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Ponce**, primary government assets exceed total liabilities by \$101,219,058 at the end of 2011, as compared to prior fiscal year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$1,449,620 increase reflected in the Net Assets figure.

**CONDENSED STATEMENTS OF NET ASSETS**

	2011	2010	Change	%
<b>ASSETS</b>				
Current and other assets	\$ 91,070,925	\$ 69,007,775	\$ 22,063,150	32%
Capital assets	377,329,055	362,539,212	14,789,843	4%
<b>Total assets</b>	<b>468,399,980</b>	<b>431,546,987</b>	<b>36,852,993</b>	<b>9%</b>
<b>LIABILITIES</b>				
Current and other liabilities	63,339,338	59,416,330	3,923,008	7%
Long-term debt outstanding	303,841,584	273,099,149	30,742,435	12%
<b>Total liabilities</b>	<b>367,180,922</b>	<b>332,515,479</b>	<b>34,665,443</b>	<b>11%</b>
<b>NET ASSETS:</b>				
Invested in Capital assets, net of related debt	280,566,055	212,037,212	68,528,843	32%
Restricted for:				
Special purposes	2,834,965	7,391,664	(4,556,699)	(62%)
Capital projects	25,440,924	4,934,076	20,506,848	416%
Debt service	14,712,643	9,944,961	4,767,682	48%
Federal grants	9,467,681	8,313,048	1,154,633	14%
Unrestricted	(231,803,210)	(142,851,523)	(88,951,687)	62%
<b>Total net assets:</b>	<b>\$ 101,219,058</b>	<b>\$ 99,769,438</b>	<b>\$ 1,449,620</b>	<b>1%</b>

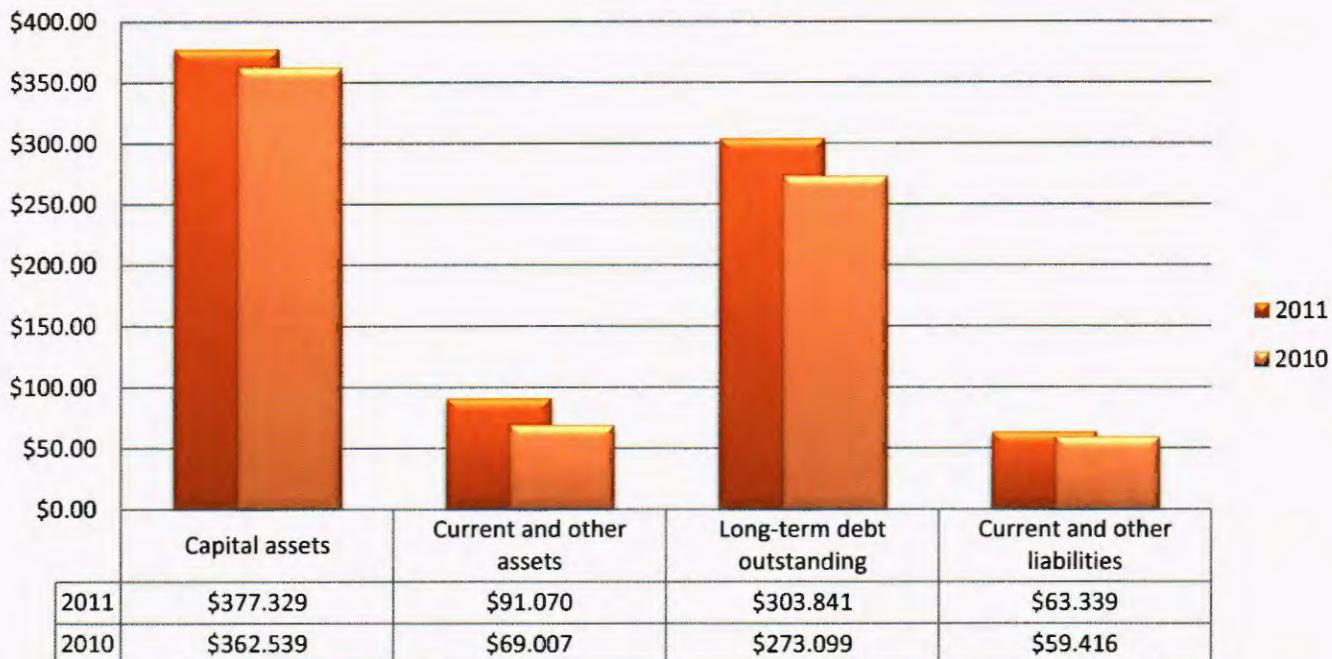
**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)**

The portion of the Municipality's net assets is the negative unrestricted net assets. The net assets consist of the excess of assets over related liabilities that are neither externally legally restricted, neither invested in capital assets. These negative net assets are the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences, claims and judgments and others. Historically, such obligations have been budgeted, as the Municipality pays, without providing funding for their future liquidation.

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

The following charts summarize the Municipality's assets and liabilities compared with prior fiscal year.

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



**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)**

**Changes in Nets Assets**

The Municipality's net assets increase by \$ 1,449,620. Approximately 53% of the Municipality's total revenue came from taxes, while 44% resulted from grants and contributions, including federal aid. Charges for Services provided 1%, Interest 1% and others 2% of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services and public works. The following table includes the composition of revenues and expenses for the fiscal years ended on June 30, 2011 and 2010.

**CONDENSED STATEMENTS OF ACTIVITIES**

	2011	2010	Change	%
<b>PROGRAM REVENUES:</b>				
Charges for services	\$ 1,614,159	\$ 2,236,019	\$ (621,860)	(28%)
Operating grants and contributions	44,213,998	52,282,922	(8,068,924)	(15%)
Capital grants and contributions	12,244,715	3,613,244	8,631,471	239%
<b>GENERAL REVENUES:</b>				
Property taxes	46,331,093	46,622,511	(291,418)	(1%)
Municipal license tax	19,449,906	19,530,983	(81,077)	0%
Sales tax	15,553,110	14,575,689	977,421	7%
Licenses, permits and other local taxes	7,072,845	8,041,983	(969,138)	(12%)
Grants and contributions not restricted to specific purpose	16,019,418	13,502,492	2,516,926	19%
Interest	1,444,616	520,126	924,490	178%
Others	3,504,429	4,443,935	(939,506)	(21%)
<b>Total revenues</b>	<b>\$ 167,448,289</b>	<b>\$ 165,369,904</b>	<b>\$ 2,078,385</b>	<b>1%</b>
<b>EXPENSES:</b>				
General government	60,776,818	52,183,098	8,593,720	16%
Public safety	14,851,135	13,376,724	1,474,411	11%
Public Works	17,797,920	26,404,916	(8,606,996)	(33%)
Culture and recreation	7,989,559	2,968,433	5,021,126	169%
Health and welfare	23,702,939	21,816,831	1,886,108	9%
Urban development	338,248	8,031,758	(7,693,510)	(96%)
Claims and judgments	96,373	349,574	(253,201)	(72%)
Education	15,920,677	16,043,056	(122,379)	(1%)
Training and employment	4,863,385	4,771,872	91,513	2%
Capital outlays:				
Special Communities	2,212,532	2,257,214	(44,682)	(2%)
Projects	11,543,970	7,043,415	4,500,555	64%
Interest	5,905,113	5,207,490	697,623	13%
<b>Total expenses</b>	<b>\$ 165,998,669</b>	<b>\$ 160,454,381</b>	<b>\$ 5,544,288</b>	<b>3%</b>
Change in net assets	1,449,620	4,915,523	(3,465,903)	(71%)
Net assets, beginning of year (as restated)	99,769,438	94,853,915	4,915,523	5%
Net assets, end of year	<b>\$ 101,219,058</b>	<b>\$ 99,769,438</b>	<b>\$ 1,449,620</b>	<b>1%</b>

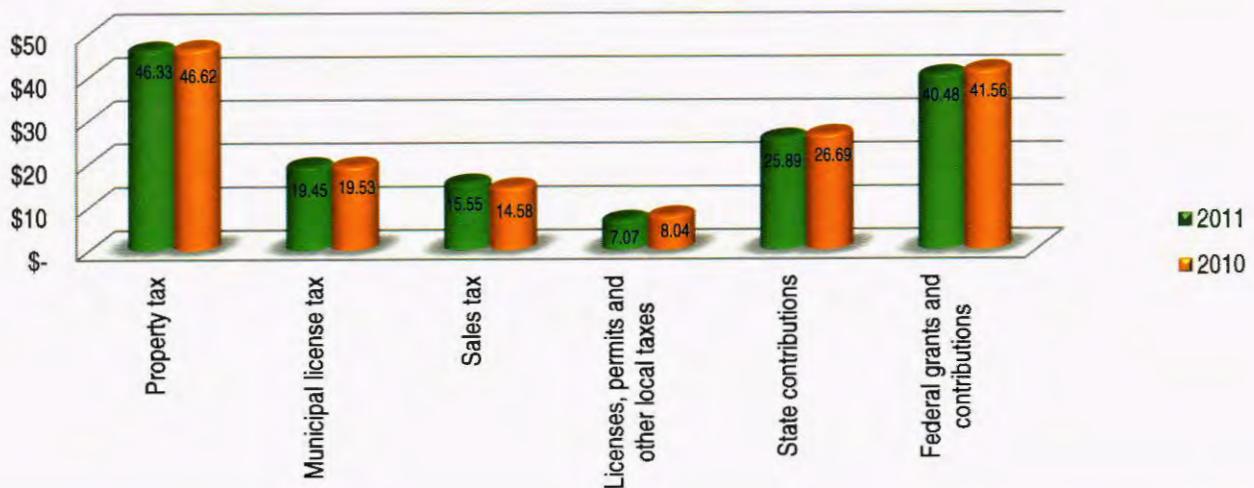
**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

**Governmental Funds**

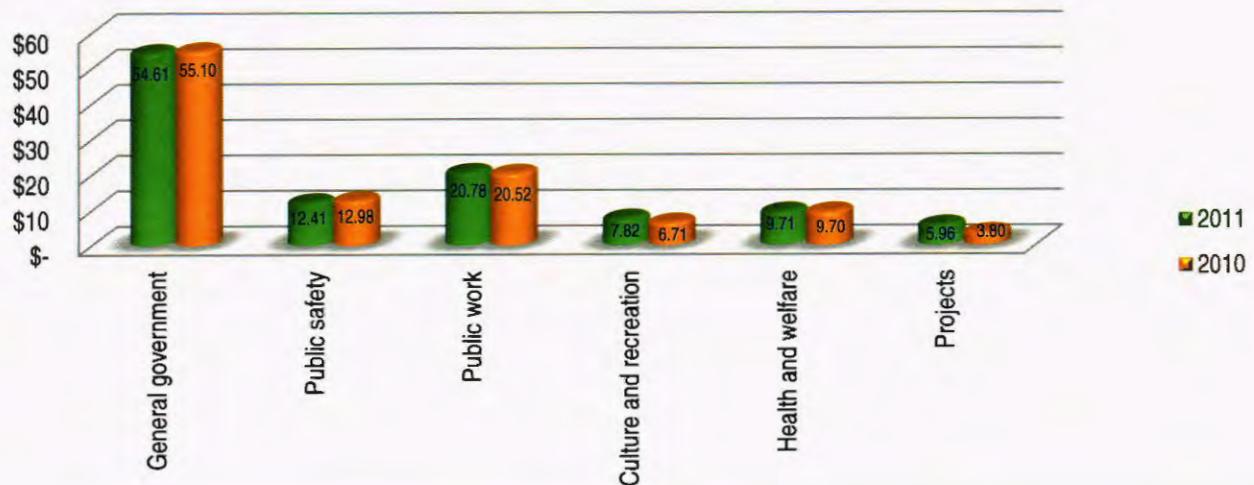
The focus of the Municipality's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of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

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

**Governmental Revenues (In Millions)**



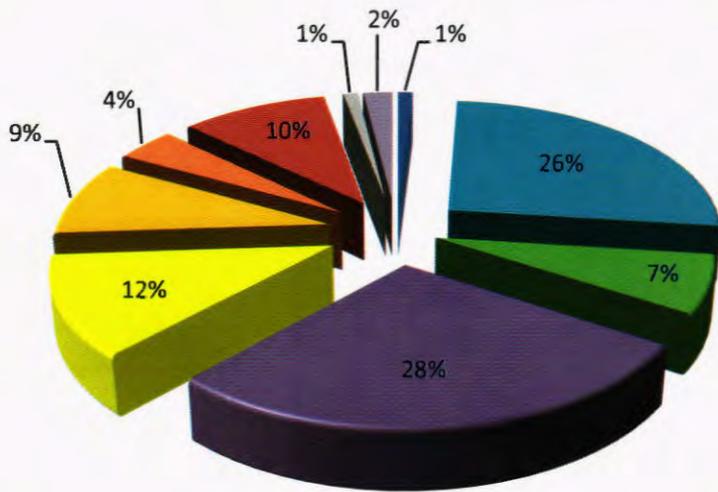
**Governmental Expenses (In Millions)**



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

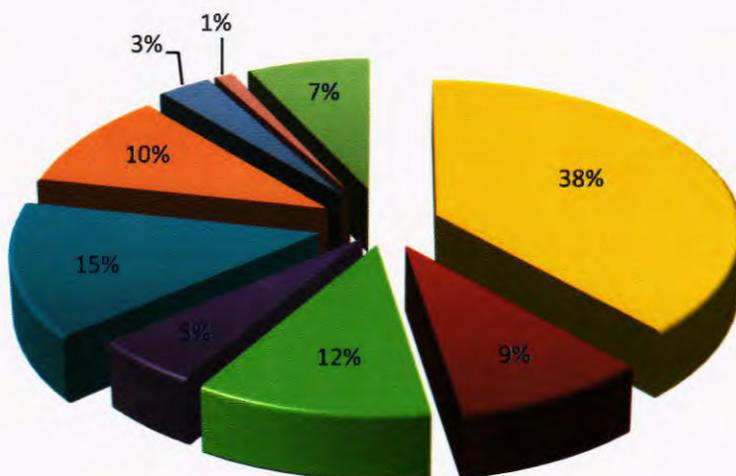
The following charts summarize the Municipality's revenues and expenses for the fiscal year ended June 30, 2011.

**Revenues 2011**



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

**Expenses 2011**



- General government
- Public safety
- Public works
- Culture and recreation
- Health and welfare
- Education
- Training and employment
- Special communities
- Projects

## **FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

### **Fund Balances**

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$18,782,208, an increase of \$14.7 million in comparison with the prior year as restated. The combined fund balances include restricted fund balances amounting to \$52.02 million. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restriction 1) to pay for specific program purposes (\$29.2 million); 2) to pay for capital projects (\$8.2 million) and 3) to pay for debt services (\$14.7 million). There are committed fund balances amounting to \$431,874 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions. Consequently, since there is an excess of restricted and committed fund balances over total fund balances, a negative unassigned fund balance of \$33.7 million was reported in the governmental funds at June 30, 2011.

Governmental funds include the General Fund, which is the main operating fund of the Municipality. As of June 30, 2011, the General Fund has an accumulated deficit of \$22,017,961 compared with prior fiscal year \$20,847,294. The deficit decreases by \$ 1,170,667.

Property revenues resulted from the approval of Act No. 71 by the Legislature of Puerto Rico, which established an incentive plan for the payment of real and personal property tax dues. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interest of the unpaid principal of pass-due property tax liability. The period that tax payers have to enjoy for such benefit extends until December 13, 2010. The unpaid property taxes covered

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

Governmental funds also include the Debt Service Fund. The fund balance of the Debt Service Fund as of June 30, 2011 and 2010 amounted to \$14.7 million and \$7.7 million, respectively. The increases of \$7.02 million in the fund balance of the Debt Service Fund is the result of an increase to the special ad valorem tax restricted for debt service and accounted for in the Debt Service Fund from 1.5% to 2.5%.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

During fiscal year 2010-2011, the Municipal Legislature approved an original budget for the General Fund of \$104.9 million. During the year, there was no amendment to include any changes in revenues that were identified during the course of the fiscal year. However, there were transfers of appropriations between the original and final budget due to changes in departments' budgeted expenditures. The budgetary comparison reflected a deficiency of \$13.1 million of total current expenses over operating revenues.

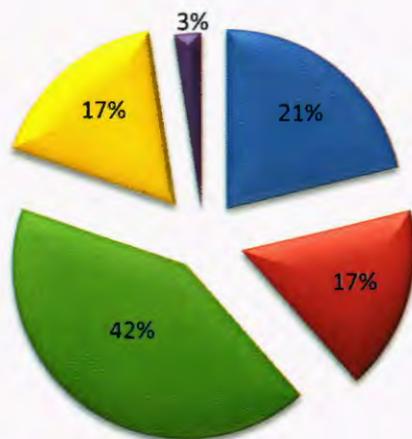
**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Municipality's investment in capital assets as of June 30, 2011, amounted to \$471,169,273 which upon deduction of accumulated depreciation in the amount of \$93,840,218 produced a net book value attributable to capital assets in the amount of \$377,329,055. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately four percent (4%) of net book value. Depreciation charges for the year totaled \$17,594,354.

The following chart summarizes the Municipality's capital assets for the fiscal years ended June 30, 2011 and 2010.

<b>Capital Assets</b> (Net of accumulated depreciation)		
	Governmental Activities	
	2011	2010
Land and improvements	\$ 80,488,862	\$ 78,557,771
Construction in progress	64,667,163	48,437,807
Buildings and buildings improvements	157,679,650	156,809,185
Infrastructure and infrastructure improvements	65,114,084	60,555,051
Machinery and equipment	9,379,296	18,179,398
<b>Total</b>	<b>\$ 377,329,055</b>	<b>\$ 362,539,212</b>



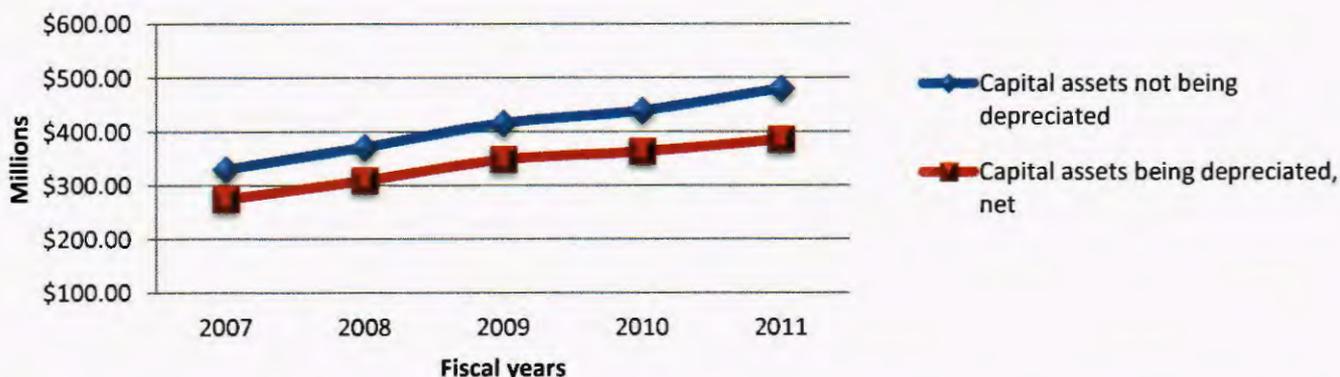
**Capital Assets 2011**

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets (continued)**

The following chart provides information about the behavior of the Municipal's Capital Assets during past five years.



Building, infrastructure and equipment increased by approximately \$13 million. Detailed information about the Municipality's capital assets is presented in Note 6 to the basic financial statements.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2011, the Municipality has \$21,372,399 of proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the General Fund, Capital Project Fund and Other Fund.

**Debt Administration**

The Puerto Rico Legislative Assembly has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act requires a Municipality must have sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

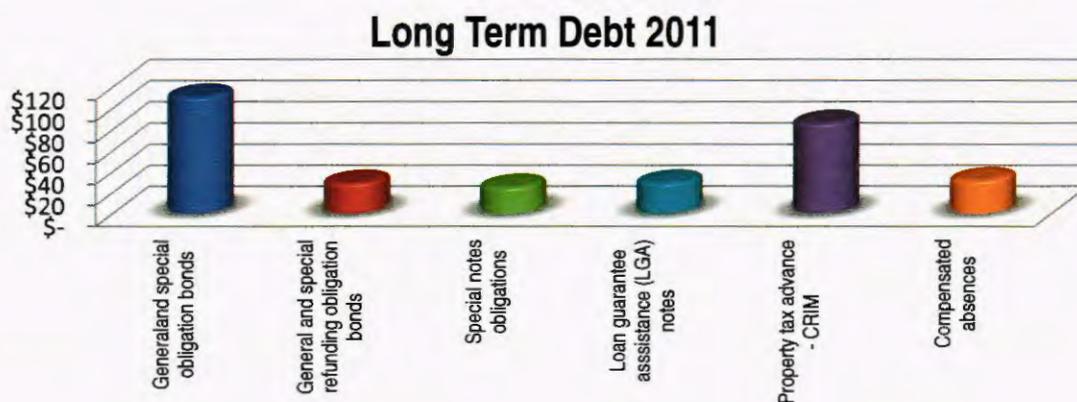
**Debt Administration (continued)**

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

On June 30, 2011, the Municipality had \$303.8 million in bonds, notes and other long-term debts outstanding, as compared to \$273.0 million in prior year, an increase of \$30.7 million, as shown in Table below. The Municipality paid \$7.57 million in principal and \$5.49 million in interest on that debt during the year. During the fiscal period, the Municipality issued bonds through the Government Development Bank for Puerto Rico in the amount of \$10.3 million to design and improvements for the building "Antigua Plaza -Ponce Servicios", \$14.5 million to other infrastructures' constructions, resurfacing of streets, and acquisition of equipment and \$13 million in operational 's loan. The bonds mature in 2036. Under current state statutes, 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.

The following chart summarizes the Municipality's capital assets for the fiscal years ended June 30, 2011 and 2010.

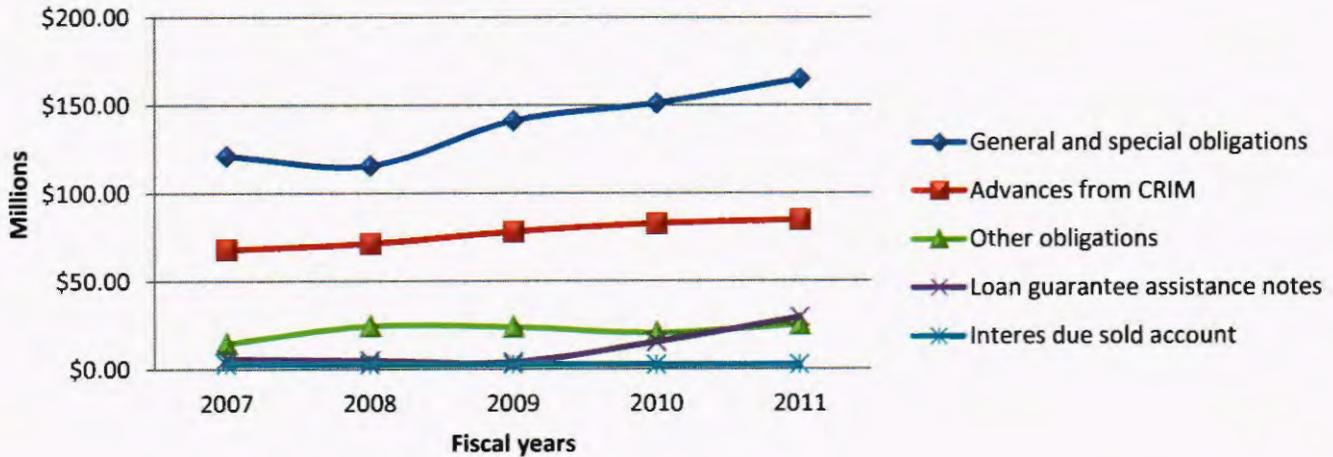
<b>Long Term Debt</b>		
	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
General and special obligation	\$ 164,970,000	\$ 150,622,000
Loan guarantee assistance notes	29,226,000	15,740,000
Advances from CRIM	85,929,830	82,585,745
Other obligations	21,313,467	21,634,723
Interest due for sold account	2,402,287	2,516,681
<b>Total</b>	<b>\$ 303,841,584</b>	<b>\$ 273,099,149</b>



**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Debt Administration (continued)**

The following chart provides information about the behavior of the Municipality's long term debt during past five years



Other obligations include compensated absences; LIMS refinancing debt, "HSS & HUD" plan payment, government debt, claims and judgments. Detailed information about the Municipality's long-term liabilities is presented in Note 13.

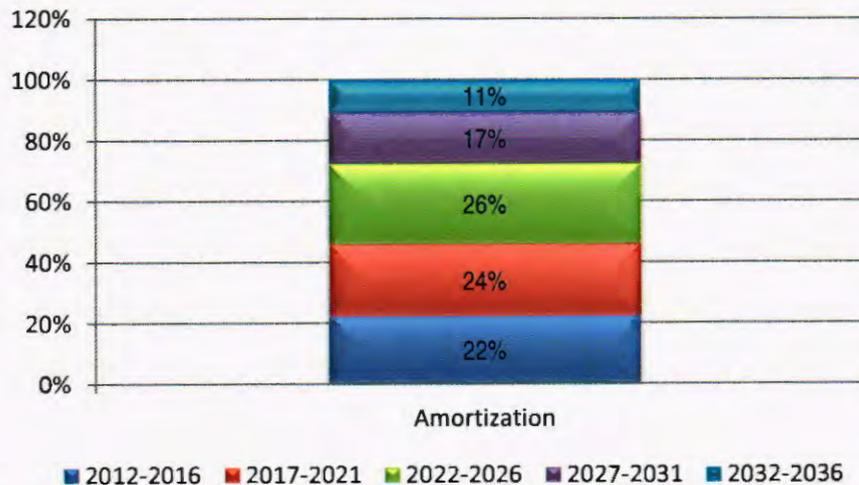
At June 30, 2011, the Municipality had \$164.97 million of general obligation bonds outstanding. The following chart indicates the principal amortization of the Municipality's general obligation bonds in five-year increments.

<b>General Obligation Bonds Principal Amortization In five Year Increments Following Fiscal Year 2011</b>	
<u>Range of Years</u>	<u>Principal Amortization</u>
2012-2016	\$ 36,606,000
2017-2021	39,226,000
2022-2026	43,539,000
2027-2031	27,826,000
2032-2036	17,773,000
<b>Total</b>	<b>\$ 164,970,000</b>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Debt Administration (continued)**

As can be seen in the following chart, approximately 72% of the Municipality's outstanding general obligation bonds will be retired within the next fifteen (15) years.



The Municipality has various outstanding notes payable amounting to \$29.23 million at June 30, 2011. Those notes payable were mainly issued for the acquisition, construction and improvement of capital assets and for construction in progress.

Additional details regarding the Municipality's long term debt can be found in Note 13.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 million in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the Municipality of Ponce will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA. The Municipality expects additional projects and funding to be awarded and expended in the following fiscal year 2011-2012.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (continued)**

**Act No. 94**

Act No. 94 issued on June 16, 2011 by the Legislature established an incentive plan for the payment of real and personal property tax due, beginning on July 14, 2011. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interests of the unpaid principal of pass-due property tax liability. The period that taxpayers have to enjoy for such benefit is for exactly ninety (90) days beginning on July 14 through October 11, 2011. The unpaid property taxes covered under this Act are those related to fiscal year 2009-2010 and earlier (for real property taxes) and for 2008 and earlier for personal property tax.

**The Port of Las Americas**

The Ponce Port Authority was signed into law on December 12, 2011, to become the sole and single governmental entity with jurisdiction to develop and set forth public policies for the project Port of the Americas and the Port of Ponce. The Ponce Port Authority is under the Municipality of Ponce.

By virtue of law, the Ponce Port Authority was invested with all the rights, powers, objectives and faculties previously granted to the Port of the Americas Authority, in furtherance of the project. It was also provided in Act 240 of 2011, that the Ponce Port Authority shall not be responsible for any debt or obligation incurred by the Port of the Americas Authority in relation to the construction phase of the project or land acquisitions.

As of March 2012, both the Port the Americas Authority and the Municipality of Ponce are in the negotiation of the terms and conditions under which their respective port operations will be transferred to the Ponce Port Authority.

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 component unit's financial statements, or need additional financial information, contact us at Municipality of Ponce, PO Box 331709, Ponce, PR 00733-1709.

**Commonwealth of Puerto Rico  
Autonomous Municipality of Ponce  
Statement of Net Assets  
June 30, 2011**

	<b>Component Units</b>	
	<b>Governmental Activities</b>	<b>Patronato</b>
<b>Assets</b>		
Cash (Note 2)	\$ 7,555,278	\$ 324,310
Accounts receivable net (Note 3):		
Municipal license tax (Notes 3)	256,920	
Sales tax (Note 9)	995,917	
Construction excise taxes	416,623	
Landfill	110,049	
Others	2,220,700	4,460
Inventories		28,287
Prepaid insurance		38,793
Due from central government (Note 4)	2,095,989	
Due from federal government (Note 4)	13,913,854	
Restricted assets:		
Cash and cash equivalents (Note 2)	17,674,069	
Cash and cash equivalents with fiscal agent (Note 2)	45,831,526	
Capital assets (Notes 6):		
Land, improvements and construction in progress		
Non-depreciable	117,658,020	
Buildings, infrastructure and other capital assets, net of depreciation	259,671,035	342,826
Total capital assets	<u>377,329,055</u>	<u>342,826</u>
<b>Total assets</b>	<u>468,399,980</u>	<u>738,676</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	25,493,476	31,671
Due to other agencies (Note 10)	10,696,747	
Deferred revenues (Note 12):		
Municipal license tax	16,363,238	
Federal grant revenues	8,347,256	
Other	12,044	90,584
Accrued expenses		78,002
Accrued interest	2,426,577	
Noncurrent liabilities (Note 13):		
Due within one year	14,576,283	2,302
Due in more than one year	289,265,301	7,698
<b>Total liabilities</b>	<u>367,180,922</u>	<u>210,257</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	280,566,055	
Restricted for:		
Special purpose	2,834,965	
Capital projects	25,440,924	
Debt service	14,712,643	
Federal grants	9,467,681	
Unrestricted (deficit) net assets	<u>(231,803,210)</u>	<u>528,419</u>
<b>Total net assets</b>	<u>\$ 101,219,058</u>	<u>\$ 528,419</u>

**Commonwealth of Puerto Rico  
Autonomous Municipality of Ponce  
Statement of Activities  
For the Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
					Governmental Activities	Patronato
<b>Primary Government</b>						
General government	\$ 60,776,818	\$ -	\$ 335,537	\$ -	\$ (60,441,281)	\$ -
Public safety	14,851,135	1,614,159	1,365,752	22,650	(11,848,574)	
Public works	17,797,920		21,125	520,000	(17,256,795)	
Culture and recreation	7,989,559		8,063		(7,981,496)	
Health and welfare	23,702,939		4,603,620	150,000	(18,949,319)	
Urban development	338,248		8,799,116		8,460,868	
Claims and judgments	96,373				(96,373)	
Education	15,920,677		14,552,120		(1,368,557)	
Training and employment	4,863,385		14,443,487		9,580,102	
Capital outlays:						
Special communities	2,212,532				(2,212,532)	
Projects	11,543,970		85,178	11,552,065	93,273	
Interest	5,905,113				(5,905,113)	
<b>Total governmental activities</b>	<b>\$ 165,998,669</b>	<b>\$ 1,614,159</b>	<b>\$ 44,213,998</b>	<b>\$ 12,244,715</b>	<b>(107,925,797)</b>	<b>-</b>
<b>Component units</b>						
<b>"Patronato"</b>						994,696
<b>Total Component Units</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>994,696</b>
<b>General revenues:</b>						
Property taxes (Note 8)					46,331,093	
Municipal license tax (Note 3)					19,449,906	
Sales tax (Note 9)					15,553,110	
Licenses, permits and other local taxes					7,072,845	
Grants and contribution not restricted for specific purpose					16,019,418	431,611
Interest					1,444,616	1,173
Others					3,504,429	634,655
<b>Total general revenue</b>					<b>109,375,417</b>	<b>1,067,439</b>
Change in net assets					1,449,620	72,743
Net assets, beginning of year, as restated					99,769,438	455,676
Net assets, end of year					<b>\$ 101,219,058</b>	<b>\$ 528,419</b>

**Commonwealth of Puerto Rico  
Autonomous Municipality of Ponce  
Balance Sheet  
Governmental Funds  
June 30, 2011**

	<u>General Fund</u>	<u>Capital Projects Fund Bond Issues</u>	<u>Debt Service Fund</u>	<u>Health and Human Services Grants</u>	<u>Workforce Investment Act Grants</u>	<u>Housing &amp; Urban Development Grants</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>								
Cash (Note 2)	\$ 7,554,119	\$ -	\$ -	\$ 1,159	\$ -	\$ -	\$ -	\$ 7,555,278
Accounts receivable net (Note 3):								
Municipal licenses tax	256,920							256,920
Sales tax	995,917							995,917
Construction excise taxes	416,623							416,623
Landfill	110,049							110,049
Others	639,471			527,729		985,277	68,223	2,220,700
Due from central government (Note 4)	1,656,364		364,233				75,392	2,095,989
Due from federal government (Note 4)			1,045,000	1,265,566	2,025,569	5,264,407	4,313,312	13,913,854
Due from other funds (Note 5)	823,908			141,785	1,293	149,709	1,061,829	2,178,524
Restricted cash:								
Cash and cash equivalents (Note 2)	4,588,935		1,110,683	262,099	23,378	5,953,038	5,735,936	17,674,069
Cash and cash equivalents with fiscal agent ( Note 2)	6,137,590	11,393,408	24,459,127				3,841,401	45,831,526
<b>Total assets</b>	<b>\$ 23,179,896</b>	<b>\$ 11,393,408</b>	<b>\$ 26,979,043</b>	<b>\$ 2,198,338</b>	<b>\$ 2,050,240</b>	<b>\$ 12,352,431</b>	<b>\$ 15,096,093</b>	<b>\$ 93,249,449</b>

**Commonwealth of Puerto Rico  
Autonomous Municipality of Ponce  
Balance Sheet (Continued)  
Governmental Funds  
June 30, 2011**

	General Fund	Capital Projects Fund Bond Issues	Debt Service Fund	Health and Human Services Grants	Workforce Investment Act Grants	Housing & Urban Development Grants	Other Funds	Total Governmental Funds
<b>Liabilities and Fund Balances</b>								
Liabilities :								
Accounts payable and accrued liabilities ( Note 7)	\$ 17,248,691	\$ 3,205,621	\$ 1,998,399	\$ 1,053,681	\$ 148,746	\$ 944,450	\$ 893,888	\$ 25,493,476
Due to other governmental entities (Note 10)	10,689,321	7,426						10,696,747
Due to other funds (Note 5)	1,388,062	14,640		52,259		246,686	476,877	2,178,524
General obligations:								
Bonds			7,851,700			1,097,679		8,949,379
Accrued interest			2,416,301			10,276		2,426,577
Deferred revenues (Note 12):								
Municipal license tax	15,861,945							15,861,945
Federal government				1,066,823	1,901,494	609,028	4,769,911	8,347,256
Others	9,838					2,206	501,293	513,337
<b>Total liabilities</b>	<b>45,197,857</b>	<b>3,227,687</b>	<b>12,266,400</b>	<b>2,172,763</b>	<b>2,050,240</b>	<b>2,910,325</b>	<b>6,641,969</b>	<b>74,467,241</b>
Fund (deficiency) balances:								
Reserved for:								
Restricted	11,230,673	8,165,721	14,712,643	25,575		9,442,106	8,447,621	52,024,339
Committed	425,371						6,503	431,874
Unassigned	(33,674,005)							(33,674,005)
<b>Total fund balances</b>	<b>(22,017,961)</b>	<b>8,165,721</b>	<b>14,712,643</b>	<b>25,575</b>		<b>9,442,106</b>	<b>8,454,124</b>	<b>18,782,208</b>
<b>Total liabilities and fund balances</b>	<b>\$ 23,179,896</b>	<b>\$ 11,393,408</b>	<b>\$ 26,979,043</b>	<b>\$ 2,198,338</b>	<b>\$ 2,050,240</b>	<b>\$ 12,352,431</b>	<b>\$ 15,096,093</b>	<b>\$ 93,249,449</b>

**Commonwealth of Puerto Rico**  
**Autonomous Municipality of Ponce**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

	General Fund	Capital Project Fund Bonds Issues	Debt Service Fund	Health and Human Services Grants	Workforce Investment Act Grants	Housing & Urban Development Grants	Other Funds	Total Governmental Funds
<b>Revenues</b>								
Property taxes (Note 8)	\$ 31,134,659	\$ -	\$ 15,196,434	\$ -	\$ -	\$ -	\$ -	\$ 46,331,093
Municipal license taxes (Note 3)	19,449,906							19,449,906
Sales tax (Note 9)	13,509,761		2,043,349					15,553,110
Royalties and others	1,614,159							1,614,159
Licenses, permits and other local taxes	7,072,845							7,072,845
Charges for services and rents	1,403,926						9,958	1,413,884
Fines and forfeitures	567,529							567,529
Interest	846,717	436,271	17,119			26,771	117,738	1,444,616
Intergovernmental revenue (Note 11):								
State Contributions	25,668,558						220,083	25,888,641
Federal grants and contributions	21,125			14,495,585	4,325,620	17,892,752	3,744,450	40,479,532
Others	1,794,142			792,631	141,266	359,152	5,001	3,092,192
<b>Total revenues</b>	<b>103,083,327</b>	<b>436,271</b>	<b>17,256,902</b>	<b>15,288,216</b>	<b>4,466,886</b>	<b>18,278,675</b>	<b>4,097,230</b>	<b>162,907,507</b>
<b>Expenditures</b>								
<b>Current:</b>								
General government	54,606,220						45,000	54,651,220
Public safety	12,406,386					32	1,673,204	14,079,622
Public works	20,775,389							20,775,389
Culture and recreation	7,816,177						52,434	7,868,611
Health and welfare	9,708,342			2,527,464		10,046,721	1,031,993	23,314,520
Urban development	407,982		6,734,454			5,959,168	1,306,493	14,408,097
Claims and judgments	48,400							48,400
Education	1,852,496			12,759,592			181,835	14,793,923
Training and employment	118,385				4,466,886		146,668	4,731,939
<b>Capital outlays:</b>								
Special Communities	2,212,532							2,212,532
Projects	5,964,687	3,714,402					1,864,881	11,543,970
<b>Debt service:</b>								
Principal			10,261,700					10,261,700
Interest			5,905,113					5,905,113
<b>Total expenditures</b>	<b>115,916,996</b>	<b>3,714,402</b>	<b>22,901,267</b>	<b>15,287,056</b>	<b>4,466,886</b>	<b>16,005,921</b>	<b>6,302,508</b>	<b>184,595,036</b>

**Commonwealth of Puerto Rico**  
**Autonomous Municipality of Ponce**  
**Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

	General Fund	Capital Projects Fund Bonds Issues	Debt Service Fund	Health and Human Services Grants	Workforce Investment Act Grants	Housing & Urban Development Grants	Other Funds	Total Governmental Funds
Excess (deficiency) of revenues over (under) expenditures	(12,833,669)	(3,278,131)	(5,644,365)	1,160	-	2,272,754	(2,205,278)	(21,687,529)
<b>Other financing sources (uses)</b>								
Transfers in	588,279		3,782,883				14,000	4,385,162
Transfers out	(1,928,727)	(436,271)	(11,395)			(1,897,973)	(110,796)	(4,385,162)
Long-term debt issued	13,050,000	10,300,000	8,889,790				4,215,000	36,454,790
Bond issuance costs	(46,550)	(39,466)					(16,413)	(102,429)
Total other financing sources (uses)	11,663,002	9,824,263	12,661,278			(1,897,973)	4,101,791	36,352,361
Excess (deficiency) of revenues over expenditures and other financing sources	(1,170,667)	6,546,132	7,016,913	1,160	-	374,781	1,896,513	14,664,832
Fund balance, beginning as restated	(20,847,294)	1,619,589	7,695,730	24,415		9,067,325	6,557,611	4,117,376
Fund balance, ending	\$ (22,017,961)	\$ 8,165,721	\$ 14,712,643	\$ 25,575	\$ -	\$ 9,442,106	\$ 8,454,124	\$ 18,782,208

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**Commonwealth of Puerto Rico  
Autonomous Municipality of Ponce  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
For the Year Ended June 30, 2011**

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**Total Fund Balances - Governmental Funds** **\$ 18,782,208**

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

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

Non Depreciable Capital Assets	\$ 117,658,020	
Depreciable Capital Assets	353,511,253	
Accumulated Depreciation	<u>(93,840,218)</u>	
Total Capital Assets		377,329,055

Principal payment on General Obligation Bonds Payable due within one year was accumulated as payable on the Governmental Fund Financial Statements, and for Governmental Wide Fiancial Statement was included as part of Non-current liabilities	8,949,379
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Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:

General Bonds and Notes Payable	194,196,000	
Property tax advances-CRIM	84,579,946	
LIMS Repayment Plan	246,857	
Property tax debt	1,349,884	
Retirement System Administration	1,660,002	
US Department of Health and Human Services - Questioned Costs 2005-2006 (Payment Plan)	564,706	
US Department of Housing and Urban Development - Questioned Costs 2003-2004 (Payment Plan)	189,046	
Interest due for accounts sold-CRIM	2,402,287	
Claims and judgments	1,246,709	
Compensated Absences	<u>17,406,147</u>	
Total Long-Term Liabilities		<u>(303,841,584)</u>

**Total Net Assets of governmental activities** **\$ 101,219,058**

**Commonwealth of Puerto Rico  
Autonomous Municipality of Ponce  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2011**

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**Net Change in Fund Balances - Total Governmental Funds** **\$ 14,664,832**

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

Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 27,849,598

Capital assets received as a donation are not recorded in the Governmental Funds, because current financial resources are not involved; however, the transaction must be reflected in the Government-Wide Financial Statements based on the fair value of the donated property. This is the amount of donated capital assets recorded in the current period. 4,540,782

Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (17,594,354)

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Change in Net Assets. (6,183)

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. (27,834,000)

Principal payment on General Obligation Bonds due within one year was accumulated as payable on the Governmental Fund Financial Statement, and for Governmental Wide Financial Statement was included as Non-current liabilities. 2,737,380

Advance property tax in excess of actual collections are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, advance property tax in excess of actual collections are not reported as expenditures in Government Funds. This amount of advance property tax in excess of actual collection for the current fiscal year. (3,748,410)

Long-term claims and judgments are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represent the change in long-term claims and judgments from prior year. 1,029,291

**Commonwealth of Puerto Rico  
Autonomous Municipality of Ponce  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities (Continued)  
For the Year Ended June 30, 2011**

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<p>Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduce long-term property tax advance debt in the Government-Wide Statement of Net Assets. The following amount represent the change in long-term property tax advance debt from prior year.</p>	404,325
<p>Repayment of long term interest due for accounts sold-CRIM is an expenditure in Governmental Funds, but the repayment reduce long-term property tax advance debt in the Government-Wide Statement of Net Assets. The following amount represent the change in long-term interest due for accounts sold-CRIM from prior year.</p>	114,394
<p>Repayment of long term State Insurance Fund Corporation (SIFC) is an expenditure in Governmental Funds, but the repayment reduces long term SIFC in the Government-Wide Statement of Net Assets. The following amount represent the change in long term SIFC debt from prior year.</p>	58,090
<p>Repayment of long term Retirement System Administration (RSA) is an expenditure in Governmental Funds, but the repayment reduces long term RSA in the Government-Wide Statement of Net Assets. The following amount represent the change in long term RSA debt from prior year.</p>	672,000
<p>Repayment of long term Puerto Rico Aqueduct and Sewer Authority (PRASA) is an expenditure in Governmental Funds, but the repayment reduces long term PRASA in the Government-Wide Statement of Net Assets. The following amount represent the change in long term PRASA debt from prior year.</p>	678,873
<p>Repayment of US Department of Health and Human Services - Questioned Costs 2005-2006 (Payment Plan)</p>	137,313
<p>Repayment of US Department of Housing and Urban Development - Questioned Costs 2003-2004 (Payment Plan)</p>	257,782
<p>Repayment of long term Land Information Management System (LIMS) debt is an expenditure in Governmental Funds, but the repayment reduces long term LIMS debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period.</p>	472,525
<p>Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated were not reported as expenditures in Governmental Funds. The following amount represents the change in long-term compensated absences from prior year.</p>	(2,984,618)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 1,449,620</b>

## **1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Autonomous Municipality of Ponce, ("the Municipality") was founded in 1692. The Municipality's government system consists of an executive and legislature body. A Mayor and sixteen (16) members of the Municipal Legislature who are elected for a four-year term govern the Municipality.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, economic development, education, and other miscellaneous services.

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34: "*Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments*" 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, 2002. 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.

As part of this Statement, there is a reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality implemented the capitalization of infrastructure since July 1, 2002.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

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

In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

The following is a summary of the significant accounting policies of the Municipality:

### A. Reporting entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential 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 or their operating of financial relationship with the Municipality by the nature and significance of the relationship between the entity and a primary government. The basic, but not the only criterion for including potential component units within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

The Municipality has two component units as detailed below. The "Port of Ponce" and "Patronato" are not included in the financial statement.

- **Port of Ponce** was formed as a result of Ordinance No. 258 (Series 1911), dated November 20, 1911, and enacted by the Executive Council of Puerto Rico, which granted the Municipality authority to construct, maintain and operate a pier, on the shore of the Ponce Harbor. The operations of the port facilities are financed principally through charges to users.
- **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 Vigia 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 receives a monthly administration fee for operation of the museum. Municipal Legislature authorized the creation of a special corporation on Resolution No. 179. (Series 2001-02).

Separate financial statements of the individual component unit cannot be obtained from Port of Ponce office. The "Patronato" was provided in February 17, 2012.

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

**Port of Ponce**

Road 10 final  
Playa de Ponce  
Ponce, Puerto Rico 00731

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

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

B. Government-wide (GWFS) and Governmental fund financial statements (GFFS)

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.

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

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.

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.

**C. Measurement focus, basis of accounting and financial statement presentation**

Except for budgetary purposes, the basis of accounting used by the Municipality conforms to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No. 20.

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. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources. Modifications to the accrual basis of accounting are shown in pages 16 and 17.

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

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.

Private-sector standards of accounting and financial reporting issue 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 Municipality has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

The Municipality reports the following major governmental funds:

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

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

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

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

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

**Health and Human Services Grants ("HHS")** - is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated. This fund accounts for revenue sources provided by US Health and Human Services Department to provide comprehensive health, educational, nutritional, social and other services to economically disadvantaged pre-school children so that the children will attain overall social competence.

**Workforce Investment Act Grants ("WIA")** - is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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 US companies find skilled workers. Under the WIA fund there are funds of The American Recovery and Reinvestment Act of 2009 ("ARRA"). ARRA is an economic stimulus package endorsed by the President of the United States of America, and approved by Congress. Its immediate goals includes the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of "accountability and transparency in government spending".

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

**Housing & Urban Development Grants ("HUD")-** is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. This fund accounts for revenue sources provided by US Housing and Urban Development Department for the development of viable urban communities, decent housing, suitable living 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.

**Others Funds -** Other governmental fund of the Municipality account for grants and other resources whose use is restricted to a particular purpose. The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.

**D. Assets, Liabilities and Net Assets**

1. **Cash and 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.

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

2. **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.

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

3. **Receivables-** Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

4. **Inventories-** Inventories in the general fund are recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
5. **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 expended 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 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, 2011.

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

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
Buildings and site improvements	20-50 years	\$1
Land improvements	20-30 years	\$1
Infrastructure	20-50 years	\$1
Machinery and equipment	5- 20 years	\$25

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

**6. Works of art and historical treasures-** At June 30, 2011, the Municipality has the following work of art, historical treasures, and similar assets:

- Centro Ceremonial Indígena de Tibes (Period 1200 AC to 1493 AC) – the collection have skeletons, charms, "petroglifos" and ceremonial park of Taino Indian culture.
- Museo Antiguo Parque de Bombas (1882) – the collection 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.
- 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.
- 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 took the option not to capitalize work of arts and historical treasures by the patrimony value for future generations.

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

7. **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 prior incurring the qualifying expenditures.
8. **Interfund receivables and payables-** The Municipality has the following types of transactions among funds:
- a. **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.
  - b. **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.
9. **Fund Balances -** In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- b. **Committed** – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- c. **Unassigned** – Represent the residual classification for the Municipality's general fund and includes all amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2011.

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends committed resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

10. **Net Assets** –Restricted net assets have been reported pursuant to the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). Those net assets consist of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net assets for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net assets identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes.

Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes. Internally imposed designation of resources, including earmarking, are not reported as restricted net assets. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

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

In the government-wide statements, net assets are segregated into three categories:

- a. **Invested in capital assets, net of related debt:** Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
  - b. **Restricted net assets:** Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
  - c. **Unrestricted net assets:** Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.
11. **Accounting for Pension Costs-** For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.
12. **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, 2011 amounted to approximately \$2.98 million. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the automobile accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to AACA.

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

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2011 amounted to \$1.9 million.

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

Under Act No. 63 of June 21, 2011, the Legislative Assembly of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans being provided to the municipal employees. As of the date of this report, the municipal administration has taken initial steps toward assuming such responsibility under the municipal employee's health plan.

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

- 14. 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.

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

In 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.

- 15. Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.
- 16. 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 4% 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. These benefits are recorded as expenditures when paid in the general fund.
- 17. 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.
- 18. Reclassifications to component unit's 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.
- 19. Future adoption of accounting pronouncements-** The Governmental Accounting Standards Board has issued the following statements that have effective dates after June 30, 2011:
  - a. GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60). The requirements of this statement are effective for the fiscal year commencing on July 1, 2011.
  - b. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (GASB No. 61). The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement is effective for periods beginning after June 15, 2012.

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

- c. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements* (GASB 62). The requirements of this statement are effective for the fiscal year commencing on July 1, 2012.
- d. GASB Statement No. 63, *Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The requirements of this statement are effective for the fiscal year commencing on December 15, 2011.
- e. GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision (amendment to GASB Statement No. 53)*. The requirements of this statement are effective for the fiscal year commencing on June 15, 2011.

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

## 2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

**Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2011.

**Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2011, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2011, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2011, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

## 2. CASH AND CASH EQUIVALENTS (continued)

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2011. Therefore, the Municipality's management has concluded that at June 30, 2011 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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

Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's maintains balances of \$12,143,054 in the General Fund, \$1,110,683 in the Debt Service Fund, \$263,258 in the Health and Human Services Grants, \$23,378 in the Workforce Investments Act Grants, \$5,953,038 in the Housing & Urban Development Grants and \$5,735,936 on Others Funds. All balances are fully collateralized at June 30, 2011.

The deposits at GDB of \$6,137,590 in the General Fund, \$11,393,408 in the Capital Projects Fund, \$24,459,127 in the Debt Service Fund and \$3,841,401 in the Others Funds, are unsecured and uncollateralized, as no collateral is required to be carried by the Governmental Development Bank (GDB).

## 3. RECEIVABLES

**A. Municipal License Tax** - The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2011, the tax rates were as follows:

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

**3. RECEIVABLES (continued)**

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2011, net of allowance for uncollectible accounts.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues. Accounts receivable – net of allowance for uncollectible accounts as of June 30, 2011, consists of the following:

<u>Description</u>	<u>Gross Amount</u>	<u>Allowance</u>	<u>Net Amount</u>
Municipal license tax	\$ 285,467	\$ 28,547	\$ 256,920

**B. Sales tax** – sales tax receivable represents filed sales tax returns that were uncollected as of June 30, 2011, as described in Note 9.

<u>Description</u>	<u>Gross Amount</u>	<u>Allowance</u>	<u>Net Amount</u>
Sales tax	\$ 1,106,574	\$ 110,657	\$ 995,917

**4. DUE FROM GOVERNMENTAL ENTITIES**

Due from government entities represent grants and contributions due from central and federal governments.

<u>Central governments:</u>	<u>Amount</u>
Department of Justice (Ponce en Marcha)	\$ 1,564,779
CRIM	223,864
Treasury Department - IVU	140,370
Department of Health	67,870
Department of Education	44,247
Department of Labor	44,005
Family Department	7,523
Others	3,331
Total due from central government	<u>\$ 2,095,989</u>

**4. DUE FROM GOVERNMENTAL ENTITIES (continued)**

<u>Federal governments:</u>	<u>Amount</u>
HUD – CDBG	\$ 5,186,240
Federal Emergency Management Agency (FEMA)	3,217,314
Workforce Investment Act Grant	2,025,569
HUD – LGA	1,045,000
Department of Justice “ARRA”	806,433
HHS - Head Start	693,729
HHS - Ryan White	570,850
Bulletproof Best Partnership	114,307
Child and Adult Care Food Program	76,486
Homeland Security	75,014
HUD - Emergency Shelter	44,066
HUD – HOME	34,101
El Tuque Satellite Center	18,000
Federal Department of Justice	5,758
HHS - Head Start- “ARRA”	<u>987</u>
Total due from federal government	<u>\$ 13,913,854</u>

**5. INTERFUND TRANSACTIONS**

Interfund transactions, which are expected to be repaid on or before June 30, 2011, are as follows:

**a. Due from other funds**

<u>General Fund</u>	<u>Amount</u>	<u>Purpose</u>
Other Funds	\$ 532,484	Reimbursable expenditures
HUD Funds	241,623	Reimbursable expenditures
HHS Funds	<u>49,801</u>	Reimbursable expenditures
<b>Sub-total general fund</b>	<b><u>\$ 823,908</u></b>	
<u>HHS grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 141,785	Reimbursable expenditures
<b>Sub-Total HHS grants</b>	<b><u>\$ 141,785</u></b>	
<u>WIA grant</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 1,293	Reimbursable expenditures
<b>Sub-total WIA grant</b>	<b><u>\$ 1,293</u></b>	
<u>HUD grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 149,709	Reimbursable expenditures
<b>Sub-total HUD grants</b>	<b><u>\$ 149,709</u></b>	

**5. INTERFUND TRANSACTIONS (continued)**

<u>Others</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 1,061,829	Reimbursable expenditures
<b>Sub-total Others</b>	<b>\$ 1,061,829</b>	
<b>Total</b>	<b>\$ 2,178,524</b>	
 b. Due to other funds		
<u>General Fund</u>	<u>Amount</u>	<u>Purpose</u>
Other Funds	\$ 1,095,275	Reimbursable expenditures
HUD Funds	149,709	Reimbursable expenditures
HHS Funds	141,785	Reimbursable expenditures
WIA Fund	<u>1,293</u>	Reimbursable expenditures
<b>Sub-total due to General Fund</b>	<b>\$ 1,388,062</b>	
 <u>Capital Projects funds</u>	 <u>Amount</u>	 <u>Purpose</u>
General Fund	\$ 14,640	Reimbursable expenditures
<b>Sub-total Capital Projects funds</b>	<b>\$ 14,640</b>	
 <u>HHS Grants</u>	 <u>Amount</u>	 <u>Purpose</u>
General Fund	\$ 52,259	Reimbursable expenditures
<b>Sub-total HHS funds</b>	<b>\$ 52,259</b>	
 <u>HUD grants</u>	 <u>Amount</u>	 <u>Purpose</u>
General Fund	\$ 246,686	Reimbursable expenditures
<b>Sub-total HUD grants</b>	<b>\$ 246,686</b>	
 <u>Others Grants</u>	 <u>Amount</u>	 <u>Purpose</u>
General Fund	\$ 476,877	Reimbursable expenditures
<b>Sub-total Other Fund</b>	<b>\$ 476,877</b>	
 <b>Total</b>	 <b>\$ 2,178,524</b>	

**6. CAPITAL ASSETS**

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2011, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<b>Governmental Activities:</b>	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Reclassifications/ Retirements</b>	<b>Balance June 30, 2011</b>
Capital asset, not being depreciated:				
Construction in progress	\$ 48,437,807	\$ 20,159,895	\$ (3,930,539)	\$ 64,667,163
Land	50,341,364	2,649,493		52,990,857
Total capital assets not being depreciated	98,779,171	22,809,388	(3,930,539)	117,658,020
Capital assets, being depreciated:				
Buildings and building improvements	189,163,546	4,872,688		194,036,234
Land improvements	31,003,412			31,003,412
Infrastructure and infrastructure improvements	72,223,093	6,039,972		78,263,065
Machinery and equipment	48,036,842	2,598,871	(427,171)	50,208,542
Total capital assets being depreciated	340,426,893	13,511,531	(427,171)	353,511,253
Less accumulated depreciation for:				
Buildings and building improvements	(32,354,361)	(4,002,223)		(36,356,584)
Land improvements	(2,787,005)	(718,402)		(3,505,407)
Infrastructure and infrastructure improvements	(11,668,042)	(1,480,939)		(13,148,981)
Machinery and equipment	(29,857,444)	(11,392,790)	420,988	(40,829,246)
Total accumulated depreciation	(76,666,852)	(17,594,354)	420,988	(93,840,218)
Total capital assets being depreciated, net	263,760,041	(4,082,823)	(6,183)	259,671,035
<b>Governmental activities capital assets, net</b>	<b><u>\$362,539,212</u></b>	<b><u>\$ 18,726,565</u></b>	<b><u>\$ (3,936,722)</u></b>	<b><u>\$ 377,329,055</u></b>

**6. CAPITAL ASSETS (continued)**

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 4,494,977
Public safety	1,836,753
Public works	5,021,962
Health and welfare	751,502
Culture and recreation	3,953,544
Urban development	229,443
Training and employment	131,446
Claims and judgments	47,973
Education	<u>1,126,754</u>
<b>Total depreciation expense-governmental activities</b>	<b><u>\$ 17,594,354</u></b>

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2011 are summarized as follows:

<u>Funds</u>	<u>Accounts Payable</u>	<u>Accrued Liabilities</u>	<u>Total</u>
General fund	\$ 17,242,213	\$ 6,478	\$ 17,248,691
Capital projects fund	3,205,621		3,205,621
Debt service fund	1,998,399		1,998,399
HHS program	549,638	504,043	1,053,681
WIA program	78,830	69,916	148,746
HUD program	505,128	439,322	944,450
Other governmental funds	893,888	-	893,888
<b>Total on balance sheet</b>	<b><u>\$ 24,473,717</u></b>	<b><u>\$ 1,019,759</u></b>	<b><u>\$ 25,493,476</u></b>
Plus: Obligation paid with CAE funds			7,851,700
Loan guarantee assistants obligation			<u>1,097,679</u>
<b>Total on statement of net assets</b>			<b><u>\$ 34,442,855</u></b>

**8. 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	2.50%	2.50%
Discounts made by state to taxpayer	(.20%)	(.20%)
	<u>9.33%</u>	<u>7.33%</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.

**8. PROPERTY TAXES (continued)**

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, 2011, presented as noncurrent liabilities in the government-wide financial statements amounted to approximately \$84.6 million of which \$513,672 pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2011. See information regarding property tax claim made by the Municipality to CRIM in Note 13.

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.

**9. 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 "Leon 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 citizens' 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 citizens' 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. The Municipality collected \$15,553,110 during the year ended June 30, 2011.

**10. DUE TO GOVERNMENTAL ENTITIES**

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

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Building Authority	\$ 4,264,832
Puerto Rico Electric Power Authority	2,201,578
Retirement System Administration	1,806,970
Puerto Rico Aqueduct and Sewer Authority	1,045,793
Puerto Rico Telephone Company	631,174
Internal Revenue Service	294,936
Commonwealth of Puerto Rico Employee Association	184,707
US Housing and Urban Development	85,930
State Insurance Fund Corporation	58,090
US Department of Health and Human Services	57,214
Department of the Family "ASUME"	31,295
Governmental Development Bank	17,426
Department of Labor	10,251
General Services Administration	4,451
Human Resources Office - ORHELA	<u>2,100</u>
<b>Total</b>	<b><u>\$10,696,747</u></b>

**11. INTERGOVERNMENTAL REVENUES**

Following is detail of intergovernmental revenues:

<u>State agencies:</u>	<u>Amount</u>
Puerto Rico Electric Power Authority	\$ 11,465,524
Puerto Rico Department of Natural Resources	7,011,283
Subsidy and Lottery of Puerto Rico – CRIM	3,174,571
Reimbursement from the Commonwealth of Puerto Rico of Christmas bonus expenditures	1,352,080
School Infrastructure Development	1,071,084
Department of Education	727,807
Puerto Rico Legislative Joint Resolutions	520,000
Department of Labor	336,017
Department of Housing and Urban Development	150,000
Infrastructure Financing Authority (AFI)	57,625
Puerto Rico Police Department	<u>22,650</u>
<b>Total governmental funds</b>	<b><u>\$ 25,888,641</u></b>

<u>Federal agencies:</u>	<u>Amount</u>
HHS – Head Start	\$ 11,438,595
HUD – Section 8 Choice Voucher	9,782,894
HUD – CDBG – Entitlement	5,028,213
Department of Labor – Workforce Investment Act	4,325,620
HHS – Ryan White	2,527,464
HUD – Emergency Shelter	1,844,380
American Recovery and Reinvestment Act	1,381,493
Department of Agriculture – USDA	957,611
Department of Justice – Homeland Security	604,582
HHS – Head Start “ARRA”	529,526
Department of Justice – Anti Gang Initiative	490,531
HUD – Home Program	404,042
HUD – Municipal Bank (CDBG loans)	301,119
HUD – Moderate I and II	292,574
HUD – CDBG – ARRA	239,529
Department of Justice – JAG	160,000
Federal Emergency Management Agency (FEMA)	93,909
Others	<u>77,450</u>
<b>Total governmental funds</b>	<b><u>\$ 40,479,532</u></b>

**12. DEFERRED REVENUES**

- A. Municipal License Tax- The deferred revenues of \$15,861,945 in the general fund relates to municipal license tax collected in fiscal year 2010-11 that will be earned in fiscal year 2011-12.
- B. Federal Grants- The deferred revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Homeland Security	\$ 2,278,491
Federal Emergency Management Agency (FEMA)	2,139,153
Department of Labor – Workforce Investment Act	1,901,494
HHS - Head Start	1,066,823
HUD – Home Program	571,086
American Recovery and Reinvestment Act	200,630
Department of Agriculture – USDA	95,825
HUD – Emergency Shelter	37,104
Department of Justice- Police Enforcement	27,744
El Tuque Satellite Center	18,317
Department of Education - Library	9,752
Others	<u>837</u>
<b>Total</b>	<b><u>\$ 8,347,256</u></b>

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**13. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2011, was as follows:

Description	Beginning Balance (as Restated)	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 84,122,000	\$ 21,335,000	\$ (5,067,000)	\$ 100,390,000	\$ 5,774,000
General refunding obligation bonds	9,250,000		(290,000)	8,960,000	300,000
Special refunding obligations bonds	21,005,000		(830,000)	20,175,000	865,000
Special obligation bonds	10,560,000		(350,000)	10,210,000	375,000
Special obligation bonds IVU	25,685,000		(450,000)	25,235,000	485,000
Special notes obligations	15,740,000	14,076,000	(590,000)	29,226,000	2,354,000
Property tax advance- CRIM	80,831,536	3,748,410		84,579,946	
Property tax debt	1,754,209	513,672	(917,997)	1,349,884	513,672
LIMS Refinancing debt-CRIM	719,382		(472,525)	246,857	246,857
Retirement System					
Administration (RSA)	2,332,002		(672,000)	1,660,002	672,000
US Department of Health & Human Services –Questioned Costs 2005-2006	702,019		(137,313)	564,706	137,313
US Department of Housing & Urban Develop. –Questioned Costs 2005-2006	446,828		(257,782)	189,046	189,046
Puerto Rico Aqueduct & Sewer Authority (PRASA)	678,873		(678,873)		
State Insurance Fund Corporation (SIFC)	58,090		(58,090)		
Interest due for accounts sold- CRIM	2,516,681		(114,394)	2,402,287	114,395
Claims and judgment	2,276,000	649,341	(1,678,632)	1,246,709	250,000
Compensated absences	<u>14,421,529</u>	<u>4,186,863</u>	<u>(1,202,245)</u>	<u>17,406,147</u>	<u>2,300,000</u>
<b>Total long term debt</b>	<b><u>\$ 273,099,149</u></b>	<b><u>\$ 44,509,286</u></b>	<b><u>\$(13,766,851)</u></b>	<b><u>\$303,841,584</u></b>	<b><u>\$ 14,576,283</u></b>

- 1. Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessed property value located within the Municipality. Before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable and notes, are paid with unrestricted funds.
- 2. Bonds Payable -** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for \$13,050,000 for operational activities and \$8,285,000 for acquisition of equipment and constructions. Outstanding bonds payable at June 30, 2011 are as follows:

**13. LONG-TERM LIABILITIES (continued)**

Description	Balance at June 30, 2011
1997 General obligation bond for improvements and acquisition of various capital assets with an original amount of \$11,265,000 due in annual installments of \$410,000 to \$1,220,000, through July 1, 2011, with interest ranging of 4.86% to 6.75%	\$ 1,220,000
1999 General obligation bond for infrastructure improvements with an original amount of \$3,020,000 due in annual installments of \$115,000 to \$320,000 through July 1, 2025, with interest ranging of 4.86% to 6.11%	890,000
2001 General obligation bond for construction, improvements and acquisition of various capital assets with an original amount of \$31,765,000 due in installments of \$435,000 to \$2,755,000, through July 1, 2025, with interest ranging from 2.70% to 6.13%	25,470,000
2004 Special refunding obligation bond for payment of debt with an original amount of \$13,200,000 due in installments of \$250,000 to \$950,000 through July 1, 2028, with interest ranging from 2.25% to 5.55%	11,120,000
2004 General refunding obligation bond for payment of debt with an original amount of \$10,650,000 due in installments of \$200,000 to \$750,000 through July 1, 2028, with interest ranging from 2.25% to 5.55%	8,960,000
2004 General bond for construction and improvements of capital assets with an original amount of \$16,295,000 due in installments of \$325,000 to \$1,250,000 through July 1, 2023, with interest ranging from 1.56% to 6%	12,545,000
2004 Special refunding obligation bond for payment of debt with an original amount of \$12,020,000 due in installments of \$240,000 to \$995,000 through July 1, 2023, with interest ranging from 2.45% to 5.5%	9,055,000
2004 Special obligation bond for construction and improvements of capital assets with an original amount of \$4,535,000 due in installments of \$85,000 to \$335,000 through July 1, 2028, with interest ranging from 2.45% to 5.6%	3,690,000
2004 Special obligation bond for operational expenses with an original amount of \$8,015,000 due in installments of \$150,000 to \$575,000 through July 1, 2028, with interest ranging from 2.45% to 5.6%	6,520,000
2005 General obligation bond for construction of capital assets with an original amount of \$14,055,000 due in installments of \$1,115,000 to \$1,740,000 through July 1, 2014, with interest ranging from 4.37% to 5%	6,455,000
2007 General obligation bond for construction and improvements of capital assets with an original amount of \$10,565,000 due in installments of \$204,000 to \$963,000 through July 1, 2031, with interest ranging from 5.57% to 6.5%	9,869,000
2007 General obligation bond for payment of operational debt with an original amount of \$7,542,000 due in annual installments of \$146,000 to \$948,000, through July 1, 2021, with interest ranging of 5.57% to 6%	6,981,000

**13. LONG-TERM LIABILITIES (continued)**

Description	Balance at June 30, 2011
2008 Special obligation bond for infrastructure construction with an original amount of \$26,100,000 due in annual installments of \$415,000 to \$2,210,000 through July 1, 2032, with interest ranging of 5.4% to 7%	25,235,000
2010 General obligation bond for operational activities with an original amount of \$15,860,000 due in installments of \$235,000 to \$1,330,000, through July 1, 2025, with interest ranging from 4.75% to 7.50%	15,625,000
2011 General obligation bond for construction of capital assets with an original amount of \$3,095,000 due in installments of \$45,000 to \$260,000 through July 1, 2035, with interest ranging from 6% to 7.5%	3,095,000
2011 General obligation bond for the construction of a capital asset with an original amount of \$665,000 due in installments of \$10,000 to \$60,000 through July 1, 2035, with interest ranging from 6% to 7.50%	665,000
2011 General obligation bond for construction of a capital assets with an original amount of \$4,525,000 due in installments of \$60,000 to \$380,000 through July 1, 2035, with interest ranging from 6% to 7.50%	4,525,000
2011 General bond for operational activities with an original amount of \$13,050,000 due in installments of \$190,000 to \$1,095,000 through July 1, 2035, with interest ranging from 6% to 7.50%	13,050,000
<b>Total</b>	<b><u>\$ 164,970,000</u></b>

These bonds, except the 2004 Series \$12,020,000, 2004 Series \$4,535,000, and 2004 Series \$8,015,000, are paid from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2004 Series \$12,020,000 bond, 2004 Series \$4,535,000, and 2004 Series \$8,015,000 bonds are payable with General Fund resources.

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

Year Ending June 30,	Principal	Interest
2012	\$ 7,799,000	\$ 9,863,785
2013	7,029,000	9,877,111
2014	7,553,000	9,432,808
2015	7,720,000	8,964,332
2016	6,505,000	8,537,483
2017-2021	39,226,000	35,813,580
2022-2026	43,539,000	23,037,353
2027-2031	27,826,000	11,268,577
2032-2036	17,773,000	2,648,798
<b>Total</b>	<b><u>\$ 164,970,000</u></b>	<b><u>\$ 119,443,827</u></b>

**13. LONG-TERM LIABILITIES (continued)**

3. **Special obligation bonds (IVU)** – The Series 2008, amounting \$26,100,000 is payable with the revenues generated from the collection of the .3% of the municipal sales and use tax imposed by the Municipality and collected by the Puerto Rico Treasury Department.
4. **Notes Payable-** The proceeds of the issuance of notes payable were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<b>Type of notes</b>	<b>Maturity Date</b>	<b>Original Amount</b>	<b>Range of Interest Rate</b>	<b>Balance at June 30, 2011</b>
Loan guarantee assistance (LGA) notes - Series 2011-A	8-1-30	\$ 8,890,000	Variable	\$ 8,890,000
Loan guarantee assistance (LGA) notes - Series 2010-A	8-1-22	10,956,000	Variable	10,956,000
Loan guarantee assistance (LGA) notes - Series 2008-A	8-1-15	3,845,000	8.04% to 8.19%	2,765,000
General obligation note 2010 series	7-1-16	435,000	6.0% to 7.50%	385,000
General obligation note 2011 series	7-1-17	640,000	6.0% to 7.50%	640,000
General obligation note 2011 series	7-1-17	2,015,000	6.0% to 7.00%	2,015,000
General obligation note 2011 series	7-1-17	3,575,000	6.0% to 7.50%	3,575,000
<b>Total notes payable</b>				<b>\$ 29,226,000</b>

5. **Loan guarantee assistance notes (LGA)** –These notes are guaranteed by the federal government through the Loan Guarantee Assistance Program and will be repaid from future appropriations to the Municipality's Community Development Block Grant for Puerto Rico program.

The note, totaling \$3,845,000 is payable in annual aggregate principal installments of \$540,000, plus interest rates which fluctuates from 8.04% to 8.19%.

The drawdown of monies, for the note totaling \$19,846,000 is made thru presentation of due invoices to the Agency, so the entirety of the loan proceeds are not in the Municipality's custody. As of June 30, 2011, the Municipality received \$18,800,556 but only has to provide for the loan's interest payment, until the full amount of the proceeds is received.

General obligation notes 2011 series - During the current year, the Municipality issued notes for \$640,000 for the acquisition of equipment, \$2,015,000 for resurfacing of streets and roads and \$3,575,000 for the acquisitions of buses SITRAS (Sistema Integrado de Transportación del Sur). These notes are payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

**13. LONG-TERM LIABILITIES (continued)**

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

Year Ending June 30,	Principal	Interest
2012	\$ 2,354,000	\$ 1,811,380
2013	2,404,000	2,029,689
2014	2,469,000	1,934,020
2015	2,539,000	1,828,719
2016	2,639,000	1,712,334
2017-2021	6,321,000	7,194,170
2022-2026	6,320,000	6,311,208
2027-2031	4,180,000	4,447,834
<b>Total</b>	<b>\$ 29,226,000</b>	<b>\$ 27,269,354</b>

6. **Property Taxes Debts-** These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM) at June 30, 2011. The CRIM issued a settlement noting that the advances exceeded collections by \$85.9 million. In the government-wide financial statements, the entire amount has been recognized as long term debt.
7. **LIMS Repayment Plan-** During the fiscal year 2000-2001, the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System- LIMS, contracted by the CRIM. A total of \$3,790,626 is to be retained in ten years period at an interest rate of 5.95% until November 28, 2011. At June 30, 2011, the outstanding balance is \$246,857. This amount is presented in the government-wide financial statement.
8. **Retirement System Administration (RSA) -** This amount represents the balance owed to the RSA at June 30, 2011 that will be paid in accordance to the payment plan. The outstanding balances \$1,660,002.
9. **US Department of Health and Human Services – Questioned Costs 2005-2006 -** This amount represents the balance owed to the federal government. The balance of this debt will paid in accordance to the payment plan with operational fund (General Fund).
10. **US Department of Housing and Urban Development – Questioned Costs 2003-2004 -** This amount represents the balance owed to the federal government. The balance of this debt will paid in accordance to the payment plan with operational fund (General Fund).
11. **Interest due for accounts sold-CRIM-** This amount represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2011 as described in Note 8.

**13. LONG-TERM LIABILITIES (continued)**

**12. Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred. At June 30, 2011, the outstanding balance is \$1,246,709. This amount is presented in the government-wide financial statement.

**13. Compensated absences-** The government-wide statement of net assets includes approximately \$17.4 million of accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

**14. LINE OF CREDIT**

Restoration of the "Antigua Plaza del Mercado" (Ponce Servicios)

The Municipality established a non-revolving line of credit with the Government Development Bank of Puerto Rico (GDB) as of May 9, 2011, for up to \$10,000,000 as defined in the GDB loan agreement with the Municipality. The line of credit was made available to finance the restoration of the "Antigua Plaza del Mercado". Amounts drawn against the line of credit are repayable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the GDB for such purposes. The loan agreement bears interest at the variable prime interest rate plus 1.5% with a minimum of 6%. Maturity date is due in November 8, 2012. As of June 30, 2011 there was no outstanding credit balance neither interest expense incurred on the credit line.

**15. RETIREMENT PLAN**

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

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.

**15. RETIREMENT PLAN (continued)**

The amounts of the annuity shall be one and one-half percent of the average compensation, as defined, 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 creditable services.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. the Municipality is required by the same statute to contribute 9.275% of the participant's gross salary.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, 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.

If at the time of retirement accumulated benefits amount to \$10,000 or less may elect to receive a lump sum distribution up to the accumulated benefits.

**15. RETIREMENT PLAN (continued)**

**Funding Policy**

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

Contribution requirements are established by law and are as follows:

<b>Municipality</b>	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or before April 1, 1990	8.275% of gross salary

**Annual Contribution**

The Municipality contributions during those years are recognized as total pension expenditures/expenses in the category of administration as follows:

<b>Fiscal year</b>	<b>Law No. 447</b>	<b>System 2000</b>
2011	\$ 2,162,594	\$ 1,948,893
2010	\$ 2,219,223	\$ 1,966,810
2009	\$ 2,025,205	\$ 1,590,587

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

Additional information on the retirement System is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

**16. FUND BALANCE (DEFICIT)**

As of June 30 2011, fund balance (deficit) is comprised of the following:

FUND BALANCE (DEFICIT)	GENERAL FUND	CAPITAL PROJECTS FUND- BOND ISSUES \$36.4M	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND GRANTS	WORKFORCE INVESTMENT ACT GRANTS	HUD GRANTS	OTHER FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>Restricted for:</b>								
General Government	\$ 9,028	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,028
Public Safety	22,368						139,624	161,992
Public Works	3,101,030							3,101,030
Health and Welfare						4,888,220	121,586	5,009,806
Urban Development	1,535					4,553,886		4,555,421
Education				25,575			35,248	60,823
Training and Employment	52,987						55,025	108,012
Special Communities	584,570							584,570
Capital Projects	7,459,155	8,165,721					8,096,138	23,721,014
Debt Service			14,712,643					14,712,643
<b>Committed:</b>								
General Government	2,601							2,601
Culture and Recreation	34,958							34,958
Health and Welfare							583	583
Education	387,812							387,812
Training and Employment							5,920	5,920
<b>Unassigned</b>	<u>(33,674,005)</u>							<u>(33,674,005)</u>
<b>Total Fund Balance (Deficit)</b>	<u>\$ (22,017,961)</u>	<u>\$ 8,165,721</u>	<u>\$ 14,712,643</u>	<u>\$ 25,575</u>	<u>\$ -</u>	<u>\$ 9,442,106</u>	<u>\$ 8,454,124</u>	<u>\$ (18,782,208)</u>

## **17. RISK MANAGEMENT**

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division 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. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

## **18. COMMITMENTS**

### **Primary Government**

#### **Operating lease & Construction**

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, 2011, amounted to approximately \$1.9 million. Management believes that the summary of the future minimum rental commitments under noncancellable real property and equipment lease with terms exceeding one year is not significant.

The Municipality had commitments at June 30, 2011 of approximately \$30 million for the construction, improvements, or renovation of several municipal facilities.

#### **Other Commitments:**

At June 30, 2011, the general fund had commitments of approximately \$1.3 million for purchases orders or contracts that will be honored during the subsequent year.

## **19. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS**

### **A. Federal grants:**

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2011, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

## 19. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS (continued)

### B. Claims and lawsuits

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that the probable claims against the Municipality not covered by insurance are by the amount of \$1.25 million at June 30, 2011.

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

#### Municipality of Ponce vs. "CRIM"

On June 29, 2000, the Municipality filed an administrative complaint against CRIM, whereby it was questioning CRIM's collection of \$35,589,383. On December 10, 2004, the examining officer's report was adopted by CRIM and MAP's complaint was dismissed. As a result, the Municipality had to pay CRIM \$50,660,429.55 plus a 6.5% yearly interest rate. The CRIM ruled once more against the Municipality and held the latter owed CRIM the sum of \$50,744,645 plus interest. The Municipality appealed before the Puerto Rico Court of Appeals. Finally, the CRIM filed a petition for certiorari before the Puerto Rico Supreme Court, which decided to entertain the case. As a result, CRIM filed its appeal brief on August 3, 2009 and the Municipality filed its brief on October 1, 2009, after requesting and obtaining an extension of time. The case is now before the Puerto Rico Supreme Court.

## 20. CLOSURE AND POST CLOSURE CARE COST AND LANDFILL OBLIGATIONS

In accordance with Statement No. 18 of the "GASB", "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality obtained a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. As of June 30, 2011, the estimated remaining life was approximately 7.5 years.

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

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 ten (10) years incidental with the agreement of gather transportation and disposal of non-hazardous waste. 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 ranges from \$6.26 per residential unit, in the first year, to \$7.40 in the final year of the agreement. For school facilities the charges ranges from \$150 in the first year, to \$179.26 in the final year of the contract. This amounts are payable monthly to the contractor, and services for public housing are to be free of charges.

**20. CLOSURE AND POST CLOSURE CARE COST AND LANDFILL OBLIGATIONS (continued)**

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

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

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**21. PRIOR PERIOD ADJUSTMENTS**

**A. GOVERNMENTAL FUND FINANCIAL STATEMENTS**

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

	GENERAL FUND	CAPITAL PROJECTS FUND- BOND ISSUES	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND GRANTS	WORKFORCE INVESTMENT ACT GRANTS	HUD GRANTS	OTHER FUNDS	TOTAL GOVERNMENTAL FUNDS
Fund balance, as previously reported, June 30, 2010	<u>\$(22,205,821)</u>	<u>\$ 532,203</u>	<u>\$ 9,694,254</u>	<u>\$ 509,703</u>	<u>\$ 1,087,791</u>	<u>\$ 6,904,222</u>	<u>\$ 6,857,093</u>	<u>\$ 3,379,445</u>
Cancellation of prior year accounts payable	227,285	1,087,386				164,579		1,479,250
Reclassification from Fund Financial Statements to Government Wide Financial Statements "HHS"& HUD) Questioned Costs (2003-2004) & (2005-2006)	831,760							831,760
Reclassification for major fund presentation	299,482		(1,998,524)			1,998,524	(299,482)	-
Adjustment corresponding to GASBS 33 Interpretation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(485,288)</u>	<u>(1,087,791)</u>	<u>-</u>	<u>-</u>	<u>(1,573,079)</u>
Fund balance, beginning as, restated	<u>\$(20,847,294)</u>	<u>\$ 1,619,589</u>	<u>\$ 7,695,730</u>	<u>\$ 24,415</u>	<u>\$ -</u>	<u>\$ 9,067,325</u>	<u>\$ 6,557,611</u>	<u>\$ 4,117,376</u>

**B. GOVERNMENTAL-WIDE FINANCIAL STATEMENTS**

The following restatements have been made in the governmental-wide financial statements, which are reported as an adjustment to beginning net assets:

Description	Total
Net assets, beginning	\$ 100,180,355
Cancellation of prior year accounts payable	1,479,250
Reclassification and adjustment from Fund Financial Statements to Government Wide Financial Statements ("HHS" & "HUD") Questioned Costs (2005-2006) & (2003-2004) Payment Plan	(317,088)
Adjustment corresponding to GASBS 33 Interpretation	<u>(1,573,079)</u>
<b>Net assets, beginning as restated</b>	<b><u>\$ 99,769,438</u></b>

*Handwritten notes:*  
2011  
2,717,054  
Adjustment

## **22. SUBSEQUENT EVENTS**

### **The Port of Las Americas**

The Ponce Port Authority was signed into law on December 12, 2011, to become the sole and single governmental entity with jurisdiction to develop and set forth public policies for the project Port of the Americas and the Port of Ponce. The Ponce Port Authority is under the Municipality of Ponce.

By virtue of law, the Ponce Port Authority was invested with all the rights, powers, objectives and faculties previously granted to the Port of the Americas Authority, in furtherance of the project. It was also provided in Act 240 of 2011, that the Ponce Port Authority shall not be responsible for any debt or obligation incurred by the Port of the Americas Authority in relation to the construction phase of the project or land acquisitions.

As of March 2012, both the Port the Americas Authority and the Municipality of Ponce are in the negotiation of the terms and conditions under which their respective port operations will be transferred to the Ponce Port Authority.

### **Act No. 94**

Act No. 94 issued on June 16, 2011 by the Legislature established an incentive plan for the payment of real and personal property tax dues, beginning on July 14, 2011. This Act provides an amnesty to all property tax payers forgiving all penalties, charges and interests of the unpaid principal of pass-due property tax liability. The period that taxpayers have to enjoy for such benefit is for exactly ninety (90) days beginning on July 14 through October 11, 2011. The unpaid property taxes covered under this Act are those related to fiscal year 2009-2010 and earlier (for real property taxes) and for 2008 and earlier for personal property tax.

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

**Budgetary Comparison Schedule – General Fund  
For the Fiscal Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Note 1)	Final Budget Positive (Negative)
<b>REVENUES:</b>				
Property taxes	\$ 37,078,334	\$ 37,078,334	\$ 31,134,660	\$ (5,943,674)
Municipal license tax	23,849,149	23,849,149	19,449,906	(4,399,243)
Sales tax	13,733,000	13,733,000	13,496,447	(236,553)
Licenses, permits and other local taxes	7,580,000	7,580,000	6,287,808	(1,292,192)
Royalties and others	2,300,000	2,300,000	1,614,159	(685,841)
Charges for services	1,388,951	1,388,951	1,389,946	995
Intergovernmental – State Contributions	15,658,179	15,658,179	15,992,176	333,997
Intergovernmental – Federal Contributions	135,000	135,000	-	(135,000)
Fines and forfeiture	950,000	950,000	567,529	(382,471)
Interest	313,000	313,000	779,684	466,684
Miscellaneous	1,957,653	1,957,653	1,065,392	(892,262)
<b>Total revenues</b>	<b>104,943,266</b>	<b>104,943,266</b>	<b>91,777,707</b>	<b>(13,165,559)</b>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	54,414,817	52,922,688	53,093,939	(171,249)
Public safety	13,816,359	12,457,644	12,368,061	89,583
Public works	17,324,879	18,728,109	18,658,534	69,575
Health and welfare	9,701,634	9,701,634	9,701,634	-
Culture and recreation	7,227,724	7,788,380	7,769,347	19,033
Urban development	429,901	397,980	381,947	16,033
Claims and judgments	100,000-	100,000	48,400	51,600
Education	44,042	961,921	956,221	5,700
Operational Transfer to Debt Service Fund	1,883,910	1,884,910	1,884,910	-
<b>Total expenditures, encumbrances and other financing uses</b>	<b>104,943,266</b>	<b>104,943,266</b>	<b>104,862,993</b>	<b>80,273</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>			<b>\$ (13,085,286)</b>	<b>\$ (13,085,286)</b>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 91,777,707
Differences-budget to USGAAP:				
Non-budgeted revenues				11,893,899
Loan Proceed				13,050,000
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<b>\$ 116,721,606</b>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 104,862,993
Differences-budget to USGAAP:				
Non-budgeted expenditures				11,464,408
Prior year encumbrances recorded as current year expenditures for USGAAP basis				2,818,831
Current year encumbrances recorded as expenditures for budgetary purposes				(1,253,959)
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<b>\$ 117,892,273</b>

**1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Control**

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2011 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2011.

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

**Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2011**

<b>Federal Grantor/ Pass-through Grantor/Program or cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<b>Pass-through Commonwealth of Puerto Rico- Education Department</b>			
Child Care and Adult Food Program	10.558	CCC-049	\$ 962,753
<b>Total U.S. Department of Agriculture</b>			<b>962,753</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<b>Direct Programs:</b>			
CDBG – Entitlement Grants Cluster:			
Community Development Block Grant – Entitlement Program	14.218		5,052,161
Community Development Block Grant – ARRA (CDBG-R) (Recovery Act Funded)	14.253		239,259
Emergency Shelter Grants Program	14.231		224,871
Homeless Prevention and Rapid Re-Housing Program			
Technical Assistance – (Recovery Act Funded)	14.257		1,668,773
Community Development Block Grants – Section 108 Loan Guarantees	14.248		6,734,455
Home Investment Partnerships Program	14.239		392,293
Section 8 Housing Choice Vouchers	14.871		9,774,757
Section 8 - project- Based Cluster:			
Lower Income Housing Assistance Programs			
Section 8 - Moderate Rehabilitation I	14.856		24,851
Section 8 - Moderate Rehabilitation II	14.856		247,145
<b>Total U.S. Department of Housing and Urban Development</b>			<b>24,358,565</b>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
<b>Pass-through Commonwealth of Puerto Rico</b>			
Law Enforcement Assistance National Crime Information Center	16.304	2008-CK-WX-0606	157,512
Bulletproof Vest Partnership Grant	16.607		58,568
American Recovery and Reinvestment Act of 2009:			
Recovery Act – Public Safety Partnership and Community Policing Grants	16.710	2009-RJ-WX-0075	458,564
Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.803	2009-SU-B9-0053	319,650
<b>Total U.S. Department of Justice</b>			<b>994,294</b>
<b>U.S. DEPARTMENT OF LABOR</b>			
<b>Pass-through Programs:</b>			
Commonwealth of Puerto Rico Department of Labor (Council of Occupational Development and Human Resources):			
Workforce Investment Act Cluster:			
Adult Program	17.258		1,466,489
Youth Activities	17.259		1,173,436
Dislocated Workers	17.260		695,974
<b>Total Workforce Investment Act</b>			<b>3,335,899</b>

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

**Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ended June 30, 2011**

<b>Federal Grantor/ Pass-through Grantor/Program or cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. DEPARTMENT OF LABOR (CONTINUED)</b>			
<b>Pass-through Programs:</b>			
Commonwealth of Puerto Rico Department of Labor (Council of Occupational Development and Human Resources):			
American Recovery and Reinvestment Act of 2009:			
ARRA - Adult Program	17.258		363,991
ARRA - Youth Activities	17.259		142,379
ARRA - Dislocated Workers	17.260		376,141
<b>Total American Recovery and Reinvestment Act 2009</b>			<b>882,511</b>
<b>Total U.S. Department of Labor</b>			<b>4,218,410</b>
<b>U.S. DEPARTMENT OF TRANSPORTATION – (NHTSA)</b>			
<b>Pass-through Commonwealth of Puerto Rico-Police Department</b>			
State and Community Highway Safety			
– Community Program	20.600		21,353
Alcohol Open Container Requirements			
– Continued Traffic Enforcement	20.607	2007-03-60	2,750
<b>Total U.S. Department of Transportation – (NHTSA)</b>			<b>24,103</b>
<b>U.S. DEPARTMENT OF ENERGY</b>			
<b>Direct Program:</b>			
American Recovery and Reinvestment Act 2009: Energy Efficiency and Conservation Block Grant Program (EECBG)			
	81.128		847,929
<b>Total U.S. Department of Energy</b>			<b>847,929</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<b>Direct Program:</b>			
Independent Living services for Older Individuals Who Are Blind, Recovery Act			
	84.399		11,587
<b>Total U.S. Department of Education</b>			<b>11,587</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<b>Direct Programs:</b>			
Administration for Children, Youth and Families			
Head Start Cluster:			
Head Start Program	93.600		12,231,226
ARRA – Head Start	93.708		499,349
ARRA – Early Head Start	93.709		30,177
HIV Emergency Relief Project Grants	93.914		2,527,464
<b>Total U.S. Department of Health and Human Services</b>			<b>15,288,216</b>

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

**Schedule of Expenditures of Federal Awards**  
For the Fiscal Year Ended June 30, 2011

<b>Federal Grantor/ Pass-through Grantor/Program or cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
<b>Pass-through Commonwealth of Puerto Rico</b>			
<b>- Emergency Management Agency</b>			
Disaster Recovery Assistance	97.036	FEMA DR-AB-08	4,000
Disaster Grants – Public Assistance	97.036	FEMA 1798-DR-PR	285,636
<b>Pass-through Commonwealth of Puerto Rico</b>			
<b>- Department of Justice:</b>			
Citizen Corps	97.053		3,190
Interoperable Emergency Communications	97.055	2005-IN-WX-0026 2007-GB-T7-0196	7,951
Port Security Grant Program	97.056	2008-GB-T8-K116 2005-GE-T5-4009	39,557
Homeland Security Grant Program	97.067	2008-GE-T8-0001	626,386
National Center for Missing and Federal Exploited Children (NCMEC) – Amber Alert	97.076		320
<b>Total U.S. Department of Homeland Security</b>			<b>967,040</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 47,672,897</b>

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal award is a summary 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 information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The reconciliation of expenditures in the basic financial statements to the schedule of expenditures of federal awards is as follows:

	<u>Expenditures</u>
Total federal expenditures per schedule	<u>\$ 47,672,897</u>
Federal expenditures per basic financial statements included herein:	
Health and Human Services Grants	\$ 15,288,216
Workforce Investment Act Grants	4,218,410
Housing and Urban Development Grants	24,358,565
Others	<u>3,807,706</u>
Total	<u>\$ 47,672,897</u>

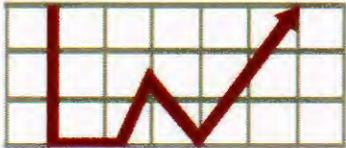
**3. SUBRECIPIENTS ENTITIES (FUNDS PROVIDED)**

During the fiscal year ended June 30, 2011, the Municipality provided the following federal funds to sub recipient's entities:

HIV Emergency Relief Project Grants (93.914)	\$ 2,123,002
Community Development Block Grant (CDBG) – Entitlement (14.218)	<u>497,361</u>
Total	<u>\$ 2,620,363</u>

**4. SECTION 108 LOAN PAYMENTS**

For the fiscal year ended June 30, 2011, the Municipality paid the amount of \$ 1,634,000 in principal as repayment of Section 108 Loan Guarantee Assistance Notes (LGA).



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Ponce, Puerto Rico, (Municipality)** as of and for the year ended June 30, 2011, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated March 28, 2012. 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 **Autonomous Municipality of Ponce's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Autonomous Municipality of Ponce's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Ponce'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses, and therefore, there can be assurance that all deficiencies, or significant deficiencies, or material weakness have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses; as items **11-01** and **11-03**.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)**

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of finding and questioned costs to be significant deficiencies; as item 11-02.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **Autonomous Municipality of Ponce's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs, as items 11-01 and 11-03.

We noted other matters that we reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated March 28, 2012.

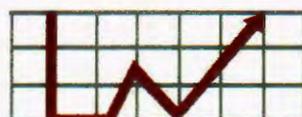
The **Autonomous Municipality of Ponce's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the **Autonomous Municipality of Ponce's** response and, accordingly, we express no opinion on it.

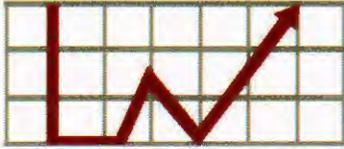
This report is intended solely for the information and use of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 28, 2012

Stamp No. 2632041 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.





*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH REQUIRED OMB-CIRCULAR A-133**

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

**Compliance**

We have audited the **Autonomous Municipality of Ponce's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Autonomous Municipality of Ponce's** major federal programs for the year ended June 30, 2011. The **Autonomous Municipality of Ponce's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant applicable to each of its major federal programs is the responsibility of the **Autonomous Municipality of Ponce's** management. Our responsibility is to express an opinion on the **Autonomous Municipality of Ponce'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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Autonomous Municipality of Ponce's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the **Autonomous Municipality of Ponce's** compliance with those requirements.

As described in items in 11-07 thru 11-18 in the accompanying schedule of findings and questioned costs the **Autonomous Municipality of Ponce** did not comply with requirements regarding activities allowed or unallowed, allowable costs / cost principles, cash management, matching and earmarking, period of availability of federal funds, procurement and suspension and debarment, and reporting that are applicable to Head Start Cluster [Head Start Program (CFDA No. 93.600), ARRA-Head Start (CFDA No. 93.708) & ARRA-Early Head Start (CFDA No. 93.709)]; and with requirements regarding cash management, eligibility, and reporting that are applicable to Section 8 Housing Choice Voucher (CFDA No. 14.871). Compliance with such requirements is necessary, in our opinion, for the **Autonomous Municipality of Ponce** to comply with the requirements applicable to those programs.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH REQUIRED OMB-CIRCULAR A-133 (CONTINUED)**

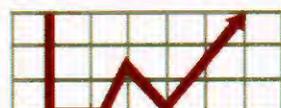
In our opinion, except for the noncompliance described in the preceding paragraph, the **Municipality** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **11-04, 11-05, 11-06 and 11-19**.

**Internal Control Over Compliance**

Management of the **Autonomous Municipality of Ponce** 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 **Autonomous Municipality of Ponce's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Autonomous Municipality of Ponce's** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **11-04, 11-07, 11-09 thru 11-13, and 11-15 thru 11-19** to be material weaknesses.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH REQUIRED OMB-CIRCULAR A-133 (CONTINUED)**

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as items; **11-05, 11-06, 11-08, and 11-14** to be significant deficiencies.

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated March 28, 2012.

This report is intended for the information of the management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 28, 2012

Stamp No. 2632042 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors



**Section II – Financial Statements Findings**

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

<b>Finding Reference</b>	<b>11-01</b>
<b>Requirement</b>	<b>Operating deficit of general fund (MW)</b>
<b>Statement of Condition</b>	As of June 30, 2011, the Municipality closed with an accumulated unreserved (deficit) fund balance of \$33,674,005 in the general fund as presented in the balance sheet-governmental funds.
<b>Criteria</b>	<p>Article 7.011, Section (a) of Autonomous Municipal Act (Law 81) establishes that if the Municipal close its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year. Section (b) 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.</p> <p>Article 8.004 (b) establishes no amount shall be expended or obligated in a given fiscal year of if exceeds its budgeted or authorized amounts by the Municipal Legislation.</p> <p>Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico (The regulation) states that it must be special care to prepare the revenues estimates so these do not results in budget appropriations in excess of available resources.</p>
<b>Cause of Condition</b>	The overstatement of estimated revenues and/or the incurrence of obligations without available credit caused the Municipality to operate with a deficit.
<b>Effect of Condition</b>	The Municipality did not comply with the Article 7.011, Section (a), Article 8.004 (b) and Section 3 of the revised regulation over basic Standard for Municipalities of Puerto Rico.
<b>Recommendation</b>	We recommend management to evaluate 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.
<b>Questioned Costs</b>	None

**Section II – Financial Statements Findings**

**Finding Reference**      11-01 (continued)

**Management Response  
and Corrective Action**

The Municipality of Ponce will take adequate measurements to control the expenditures and to reduce the accumulated deficit.

Partially Corrected

Implementation Date: During Fiscal Year 2012-2013

Responsible Person: Mrs. Ramona Pacheco, Finance and Budget Director

Section II – Financial Statements Findings

<b>Finding Reference</b>	<b>11-02</b>
<b>Requirement</b>	<b>Financial Reporting – Accounting Records</b>
<b>Statement of Condition</b>	During our examination of the Municipality’s accounting system, we noted that the accounting data still require several reporting adjustments in order to present the Municipality’s financial statements in the modified accrual basis of accounting. Also, the accounting data requires several reporting adjustments to produce government wide financial statements.
<b>Criteria</b>	Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Law, 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.
<b>Cause of Condition</b>	The Municipality did not establish effective internal control over the transactions recorded on its accounting records.
<b>Effect of Condition</b>	The Municipality accounting system did not provide updated and complete financial information that present the financial position. Also, the lack of training of the accounting personnel for the preparation of complex reports, i.e. annual financial statements could restrict the adequate response of management in financial public affair issues.
<b>Recommendation</b>	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>The Finance Director designated a special committee to evaluate the information system (SIGMA). The committee will evaluate the mentioned deficiencies and will submit a written report containing recommendations to improve, update or replace the information system. The special committee is integrated by the Accounting Supervisor, the Director of the Information and Technology Department and the Municipal Officials responsible to prepare the financial statements.</p> <p>Still in process</p> <p>Implementation Date: During Fiscal Year 2012-2013</p> <p>Responsible Person: Mrs. Ramona Pacheco, Finance and Budget Director and Mr. Carlos Colón, Director of the Information System Department</p>

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	11-03
<b>Requirement</b>	<b>Municipal license tax revenues (MW)</b>
<b>Statement of Condition</b>	Municipal license tax revenues of the fiscal year 2011-2012, which were collected in advance from taxpayers between January 1 and June 30, 2011 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2011. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2011-2012, and could not be used to pay obligations of the prior year.
<b>Criteria</b>	Article 8.004(b) of Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) states that the Municipality cannot use or obligate any amount in a given fiscal year that exceeds the appropriations and the resources authorized by ordinance or resolution for such fiscal year. In addition, the Municipality cannot be committed, in any form, to any contract or negotiation for the future payment of amounts that exceed the current fiscal year's budgeted resources.
<b>Cause of Condition</b>	The foregoing condition is primarily due to the facts that the Municipality does not prepare cash flows forecasts and projections to anticipate any cash flows shortage. Management does not have timely and accurate information regarding its operations and cannot monitor the adherence to the established budget appropriations and cash flows.
<b>Effect of Condition</b>	This situation will result in possible cash flow shortages.
<b>Recommendation</b>	We recommend the Municipality to prepare cash flows forecasts and projections to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of the current fiscal year.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	We expect that with the implementation of corrective actions and the preparation of cash flows forecasts and projections to anticipate any cash flows shortages and other measurements that our financial consultants can recommend us, avoid the use of the license tax revenues collected in advance, in future fiscal years.  Partially Corrected  Implementation Date: During Fiscal Year 2011-2012  Responsible Person: Mrs. Ramona Pacheco, Finance and Budget Director

**Section III – Major Federal Award Program 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 A-133 Compliance Supplement.)*

<b>Finding Reference</b>	<b>11-04</b>
<b>Program</b>	<b>CDBG –Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218) &amp; Community Development Block Grant ARRA Entitlement Grants (CDBG-R) – (Recovery Act Funded) (CFDA No. 14.253); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Procurement and Suspension and Debarment (I) (MW)</b>
<b>Statement of Condition</b>	<p>During our audit of procurement contract provisions test of two (2) contracts, we found one (1) contract, for the amount of \$2,673,217.20 of which \$700,000 were paid with CDBG Fund, without the following federal provisions:</p> <ul style="list-style-type: none"><li>a) Executive Order 11246 “Equal Employment Opportunity”;</li><li>b) Davis Bacon Act;</li><li>c) Sections 103 and 107 of the Contract Work Hours &amp; Safety Standard Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations;</li><li>d) Granting access to GAO or other federally agency, to books, documents, etc.;</li><li>e) Clean Air Act and Water Act;</li><li>f) Energy Policy and Conservation Act;</li><li>g) Retention of all required records for three years.</li></ul>
<b>Criteria</b>	<p>24 CFR Subpart C, Section 85.36 (b), <i>Procurement standards</i>. (1) 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 standards identified in this section.</p> <p>24 CFR Subpart C Section (i) (3) Compliance with Executive Order 11246 of September 24, 1965, entitled "Equal Employment Opportunity", as amended by Executive Order 11375 of October 13, 1967, and as supplemented in Department of Labor regulations (41 CFR chapter 60). (All construction contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees)(5)</p>

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference** 11-04 (continued)

**Criteria** (continued)

Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2,000 awarded by grantees and subgrantees when required by Federal grant program legislation) (6) Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327A 330) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts awarded by grantees and subgrantees in excess of \$2,000, and in excess of \$2,500 for other contracts which involve the employment of mechanics or laborers) (10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions. (11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed. (12) Compliance with all applicable standards, orders, or requirements issued under section 306 of the Clean Air Act (42 U.S.C. 1857 (h)), section 508 of the Clean Water Act (33 U.S.C. 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR part 15). (Contracts, subcontracts, and subgrants of amounts in excess of \$100,000). (13) Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act (Pub. L. 94A 163, 89 Stat. 871).

**Cause of Condition** The Municipality's internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.

**Effect of Condition** The Program is not in compliance with the Code of Federal Regulation 24, Subpart C, Sec. 85.36.

**Recommendation** We recommend that the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.

**Questioned Costs** None

**Management Response and Corrective Action** The Program Director will require to the Legal Services Office to instruct this Lawyers about the contract provisions required by the federal regulation.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Alejandro Gómez Quintana, Federal Program Director, Lcda. Carmen E. Torres Rodríguez, Legal Services Director

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference** 11-05

**Program** CDBG – Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218) & Community Development Block Grant ARRA Entitlement Grants (CDBG-R) – (Recovery Act Funded) (CFDA No. 14.253); U.S. Department of Housing and Urban Development

**Requirement** Reporting (L)

**Statement of Condition** During our reporting test for the CDBG – Entitlement Grants Cluster, we identified the following conditions:

The cash disbursement per program’s accounting records disagrees with cash disbursement reported in the SF-425 Federal Financial Report (cash status only) as follows:

CDBG- Entitlement & CDBG-R

Period ended on	Cash disbursement per accounting records	Cash disbursement per quarterly report	Differences
9/30/10	\$ 3,209,564.44	\$ 3,165,677.46	\$ (43,886.98)
12/31/10	559,791.42	513,216.48	(46,574.94)
3/31/11	987,368.09	988,312.60	944.51
6/30/11	1,342,559.11	1,256,551.52	(86,007.59)
	\$ 6,099,283.06	\$ 5,923,758.06	\$ (175,525)

**Criteria** Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) (1) states that the States shall have fiscal and administrative requirements for expending and accounting for all funds received under this subpart. These requirement must be available for Federal inspection and must: (i) be sufficiently specific to ensure that funds received under this subpart are used in compliance with all applicable statutory and regulatory provisions; (ii) ensure that the funds received under this subpart are only spent for reasonable and necessary costs of operating programs under this subpart; and (iii) ensure that funds received under this subpart are not used for general expenses required to carry out other responsibilities of state and local governments.

OMB Common Rules, Subpart C, Section 85.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of fund to accounting records. Also, it requires accurate, current and complete disclosure of financial results.

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>11-05 (continued)</b>
<b>Cause of Condition</b>	The Municipality financial management system failed to assure accurate, current, and complete disclosure of the financial results of financially assisted activities.
<b>Effect of Condition</b>	The Municipality is not in compliance with the Code of Federal Regulation 24, Subpart I, Sec. 570.489 (d) and OMB Common Rules, Subpart C, Section 85.20 (b) (1).
<b>Recommendation</b>	We recommend that the Municipality’s Management instruct the Program accounting staff to prepare financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>The Program Director and the Municipal Finance Director will establish internal control procedures to assure the preparation of financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities.</p> <p>Still in Process</p> <p>Implementation Date:     During Fiscal Year 2011-2012</p> <p>Responsible Person: Mr. Alejandro Gómez Quintana, Federal Program Director, Mrs. Ramona Pacheco, Finance and Budget Director.</p>

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference** 11-06

**Program** Homelessness Prevention and Rapid Re-Housing Program (HPRP) – (Recovery Act Funded) (CFDA 14.257); U.S. Department of Housing and Urban Development

**Requirement** Reporting (L)

**Statement of Condition** During our reporting test for the HPRP – Recovery Act Funded, we identified the following conditions:

The cash disbursement per program’s accounting records disagrees with cash disbursement reported in ARRA - Federal Reporting 1512 as follows:

HPRP

Period ended on	Cash disbursement per accounting records	ARRA – Federal Reporting 1512	Differences
9/30/10	\$ 231,397.69	\$ 395,058.00	\$ 163,660.31
12/31/10	467,121.30	380,284.36	(86,836.94)
3/31/11	401,498.59	571,966.50	170,467.91
6/30/11	582,304.66	384,483.42	(197,821.24)
	\$ 1,682,862.24	\$ 1,731,792.28	\$ 48,930.04

**Criteria** American Recovery and Reinvestment Act of 2009, Subtitle A – Transparency and Oversight Requirements, Sec. 1512 9 (a)-(h).

OMB Common Rules, Subpart C, Section 85.20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of fund to accounting records. Also, it requires accurate, current and complete disclosure of financial results.

**Cause of Condition** The Municipality financial management system failed to assure accurate, current, and complete disclosure of the financial results of financially assisted activities.

**Effect of Condition** The Municipality is not compliance with the American Recovery and Reinvestment Act of 2009, Subtitle A – Transparency and Oversight Requirements, Sec. 1512 (a)-(h) and not compliance with OMB Common Rules, Subpart C, Section 85.20 (b) (1).

**Recommendation** We recommend that the Municipality's Management instruct the Program accounting staff to prepare financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities.

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      11-06 (continued)

**Questioned Costs**      None

**Management Response  
and Corrective Action**

The Program Director and the Municipal Finance Director will establish internal control procedures to assure the preparation of financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities.

Still in Process

Implementation Date:      During Fiscal Year 2011-2012

Responsible Person: Mr. Alejandro Gómez Quintana, Federal Program Director, Mrs. Ramona Pacheco, Finance and Budget Director.

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	11-07
<b>Program</b>	<b>Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Cash Management (C) (MW)</b>
<b>Statement of Condition</b>	We realized the Cash Management Test for Section 8 Housing Choice Voucher Program and after our procedures we found that the Program maintained during the current fiscal year average cash balance in books of approximately \$4,702,000. At June 30, 2010, the cash balance in books was \$4,784,759.87. This situation presents excessive cash on hand. Also, the Municipality's accounting records have differences with the restricted cash and unrestricted cash reported in the "Voucher Management System".
<b>Criteria</b>	24 CFR Subpart C, Section 85.20 (a) (3) and (a) (7), Internal control, Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets. Grantees and sub grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. OMB Common Rules requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee.
<b>Cause of Condition</b>	The Program does not maintain monitoring system to verify cash balances and outstanding checks for a long time.
<b>Effect of Condition</b>	This situation could cause the reimbursement of interest income to federal agencies. Also, the program maintains excessive cash on hand not needed for immediate needs.
<b>Recommendation</b>	The Program should take the effective and necessary action to analyze the real causes of this situation and to improve compliance with federal requirement for cash management regarding payment to tenant and landlord and cash balance.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>The Program management will take necessary measurements to avoid the accumulation of excessive cash on hand and will take the adequate actions to use the excessive funds to cover necessities to improve the services to the participants and the employees work conditions, in compliance with the Program regulation.</p> <p>An external consultant has been contracted to evaluate the mentioned situation.</p> <p>Still in Process</p> <p>Implementation Date: During Fiscal Year 2011-2012</p> <p>Responsible Person: Mr. Alejandro Gómez Quintana, Federal Program Director</p>

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	11-08
<b>Program</b>	<b>Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Participant Eligibility Test (E)</b>
<b>Statement of Condition</b>	We have performed an eligibility test for sixty (60) participant's files and noted the following exceptions: <ul style="list-style-type: none"><li>a) In three (3) participant's files examined the PHA staff did not include evidence of the third party verifications.</li><li>b) In four (4) cases, the eligibility determination made by and approved by responsible officials did not agree with the third party documentation.</li><li>c) In six (6) cases, the tenant rent payment calculation was not determined in accordance with federal regulations.</li><li>d) In two (2) cases, the forms to allow the PHA to obtain information from third parties were not signed for each member of the family who is at least eighteen years old.</li></ul>
<b>Criteria</b>	24 CFR Subpart B, Section 5.609 established that as a condition of admission or continued occupancy the tenant must provide all necessary information and documentation required 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 last annually, (2) the PHA must obtain and document in the tenant file third party verifications. Besides, Code of Federal Regulations 24, Sections 982.158 (d) and 982.405 (b) states that the PHA must prepare a unit inspection report and conduct quality control re-inspection. 24 CFR Subpart A Section 35.88 (2) indicate that the PHA shall disclose to the tenant the presence of any known lead-based paint and/or lead- based paint hazards in the target unit being sold or leased. In addition, 24 CFR Part 908 states the PHA is required to submit the Form HUD-50058, Family Report (OMB No. 2577-0083) electronically to HUD each time the PHA completes an admission, annual reexaminations, interim reexamination, portability move-in or other change of unit for a family.
<b>Cause of Condition</b>	The Program officers did not obtained and completed the required documentation to validate the participant's eligibility. In addition, the Municipality has no effective monitoring review process for the program internal quality control.
<b>Effect of Condition</b>	The Program does not meet all requirements in compliance with Code of Federal Regulations 24 and could have an effect in the performance on SEMAP Report.

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference** 11-08 (continued)

**Recommendation** The Program should strengthen its internal supervisory quality controls in order to ensure performance and compliance of the procedures. Also, management has to train the staff on file documentation and verification process.

**Questioned Costs** None

**Management Response and Corrective Action** The Program has strengthened internal supervisory quality controls, establishing a procedure of double evaluation of the participant files; by the supervisor and by the Quality Control Unit. Adequate forms and checklists have been implemented to document the evaluation.

Partially corrected

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mr. Alejandro Gómez, Federal Program Director

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	11-09
<b>Program</b>	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
<b>Requirement</b>	Financial Reporting (L), (MW)
<b>Statement of Condition</b>	<p>In our test over "Voucher for Payment of Annual Contribution and Operation Statement Report" between accounting records, we noted that in the period covered from July 1, 2010 to June 30, 2011 certain differences:</p> <ul style="list-style-type: none"><li>a) The "Cash/Investment", for the months of July 2010, August 2010, September 2010, January 2011 and May 2011.</li><li>b) The "Net Restricted Assets" for the months of July 2010, September 2010 and May 2010.</li><li>c) The "Unrestricted Net Assets" for the months July 2010, February 2011, March 2011, April 2011, May 2011 and June 2011.</li></ul>
<b>Criteria</b>	<p>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. The must comply with the financial reporting requirement in 24 CFR part 5, subpart K.</p> <p>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.</p> <p>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 PHA for the reporting year.</p>

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	11-09 (continued)
<b>Cause of Condition</b>	The Program did not establish effective procedures for the reconciliation of Financial Reporting HUD-52681, expenses and unit reported to federal agency versus the data record in the accounting record. Also, the Program 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.
<b>Effect of Condition</b>	The Program's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.
<b>Recommendation</b>	The Program 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.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>The Program Director and the Municipal Finance Director will establish internal control procedures to assure the preparation of financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities. Such internal controls procedures will include the timely reconciliation of federal funds reports with the accounting records.</p> <p>The Program supervisor revised the tasks assigned to the accounting department personnel in order to achieve adequate distribution of tasks and assure the proper preparation of the reports.</p> <p>Still in Process</p> <p>Implementation Date: During Fiscal Year 2011-2012</p> <p>Responsible Person: Mr. Alejandro Gómez Quintana, Federal Program Director, Mrs. Ramona Pacheco, Finance and Budget Director and Mr. Osvaldo R. Maldonado, Program Accountant</p>

Section III – Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	11-10
<b>Program</b>	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
<b>Requirement</b>	Financial Reporting – Accounting Records (L) (MW)
<b>Statement of Condition</b>	<p>During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.</p> <p>The Section 8 Housing Vouchers Program accounting records are not designed to provide information necessary for the preparation of the Financial Status, Supplemental Reports and Financial Assessment Subsystem (FDS) in accordance with compliance requirement program. The accounting system does not summarize the transactions in a formal chart of accounts in order to properly record and account for the transactions of all reports required by the program.</p>
<b>Criteria</b>	<p>24 CFR Subpart C, Part 85.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.</p> <p>24 CFR Subpart D Section 982.158 (a), 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. The must comply with the financial reporting requirement in 24 CFR part 5, subpart K.</p>
<b>Cause of Condition</b>	The Program did not establish effective procedures for the reconciliation of Financial Reporting HUD-52681-B, expenses and unit reported to federal agency versus the data recorded in the accounting record.
<b>Effect of Condition</b>	The Program's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions. In additions, the Program's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      11-10 (continued)

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

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

**Questioned Costs**      None

**Management Response  
and Corrective Action**

The Program Management have been implementing an accounting program (Micro-information Product Non For Profit System- MIP), which contains adequate procedures for the timely conciliation of federal fund report with accounting records and to produce reliable financial data. The Program obtained additional support in the MIP implementation through a professional services contract.

Still in Process

Implementation Date:      During Fiscal Year 2011-2012

Responsible Person: Mr. Osvaldo R. Maldonado, Program Accountant

Section III – Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	11-11
<b>Program</b>	Head Start Cluster; Head Start Program (CFDA. No. 93.600), ARRA - Head Start (CFDA No. 93.708) & ARRA – Early Head Start (CFDA No. 93.709); U.S. Department of Health and Human Services
<b>Requirement</b>	<b>Activities Allowed or Unallowed (A) (MW)</b>
<b>Statement of Condition</b>	On our test over fifty-five (55) disbursement vouchers, we found the payment for an equipment with an acquisition cost of \$93,495 without the written approval of the Grant Officer.
<b>Criteria</b>	<p>45 CFR Part 92, Subpart C, Section 92.20 (b) (3), <i>Internal control</i>. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.</p> <p>45 CFR Part 92, Subpart C, Section 92.23 Period of availability of funds. (a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period</p> <p>The Standard Terms and Conditions of the grant established that “an item of equipment with an acquisition cost of \$25,000 or more and useful life of more than a year is not considered an allowable project cost without prior written approval of the Grants Officer”.</p>
<b>Cause of Condition</b>	The Program did not maintain effective internal control over budget management in order to assure that all issued transactions comply with the federal laws and regulations.
<b>Effect of Condition</b>	The Program is not in compliance with the 45 CFR Part 92, Subpart C, and the Terms and Conditions of the grant award.
<b>Recommendation</b>	The Program should establish internal controls policies to improve its procedures for the issuance of each transaction.
<b>Questioned Cost</b>	\$93,495

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      11-11 (continued)

**Management Response  
and Corrective Action**

Adequate corrective action will be taken by the program director to assure that prior to the acquisition of equipment with an acquisition cost of \$25,000 or more and useful life of more than, a written approval of the Grants Officer be obtain.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mrs. María A. Ruiz, Program Director

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference** 11-12

**Program** Head Start Cluster; Head Start Program (CFDA No. 93.600), ARRA - Head Start (CFDA No. 93.708) & ARRA – Early Head Start (CFDA No. 93.709); U.S. Department of Health and Human Services

**Requirement** Cash Management (C) (MW)

**Statement of Condition** We performed the Cash Management test over twenty-five (25) requisitions of funds and after our procedures we found the following exceptions:

- a) One (1) of the requisitions of funds for \$20,607.35 was issued twice and the excess of cash was used fifty one (51) days after the funding date;
- b) The requisitions of funds were not approved by the person authorized in the HHS Payment Management System whom;
- c) In two (2) fund requisitions, we observed that the Municipality made the disbursements between five (5) and ten (10) days after the deposits;
- d) The bank reconciliations, shows average monthly cash balance of \$46,330 in the Head Start Bank Account and \$74,616 in the Head Start-ARRA and Early Head Start-ARRA account. The cash balance shows a higher cash balance in the following months:

Month	Amount
September 2010	\$ 149,734
October 2010	\$ 128,917
November 2010	\$ 132,306
December 2010	\$ 142,344

Month	Amount
July 2010	\$ 149,734
August 2010	\$ 128,917

**Criteria** 45 CFR Part 92, Subpart C, Section 92.20 (b) (3), *Internal control*. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **11-12 (continued)**

**Criteria**                      (continued)

45 CFR Part 92, Subpart C, Section 92.20 (b) (7), Cash management. 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 balances 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 disbursements. 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.

45 CFR Part 92, Subpart D, Section 92.52, (a) Any funds paid to a grantee in excess of the amount to which the grantee is finally determined to be entitled under the terms of the award constitute a debt to the Federal Government. If not paid within a reasonable period after demand, the Federal agency may reduce the debt by: (1) Making an administrative offset against other requests for reimbursements, (2) Withholding advance payments otherwise due to the grantee, or (3) Other action permitted by law. (b) Except where otherwise provided by statutes or regulations, the Federal agency will charge interest on an overdue debt in accordance with the Federal Claims Collection Standards (4 CFR Ch. 11). The date from which interest is computed is not extended by litigation or the filing of any form of appeal.

**Cause of Condition**      The Program did not maintain effective internal control over cash management procedures in order to monitor the cash balance, and prepare and approve the requisitions of funds.

**Effect of Condition**      The Program is not in compliance with the OMB Common Rules, Subpart C, Section .20 (b) (7) and with the 45 CFR Part 92, Subpart C, Section 92.20 (b) (3).

**Recommendation**      The Program should establish internal controls policies to improve its procedures to comply with the cash management federal regulation.

**Questioned Costs**      None

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **11-12 (continued)**

**Management Response  
And Corrective Action**

The Program Director will change the person authorized to approve requisitions of funds in the HHS Payment Management System. The Head Start-ARRA and Early Head Start-ARRA account were closed, but the Program Director will continue establishing adequate internal controls policies to reduce the average monthly cash balance in the Head Start Bank Account. Also, internal controls will be strengthened in order to reduce the time elapsing between the deposit of funds and the disbursements.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mrs. María A. Ruiz, Program Director

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	11-13
<b>Program</b>	Head Start Cluster; Head Start Program (CFDA. No. 93.600), ARRA - Head Start (CFDA No. 93.708) & ARRA – Early Head Start (CFDA No. 93.709); U.S. Department of Health and Human Services
<b>Requirement</b>	Expenditures for Goods and Services and Accounts Payable-Purchasing and receiving (B) (MW)
<b>Statement of Condition</b>	<p>We performed a cash disbursement test and selected fifty five (55) disbursement vouchers. The following will summarize the internal control exceptions noted:</p> <ul style="list-style-type: none"><li>a. The purchase orders included in eight (8) disbursement vouchers of Head Start Program did not include the description of the services or goods ordered. Although, an internal document is prepared by the program staff with the specific order to the supplier; it did not include the responsible officer authorization signature.</li><li>b. Nineteen (19) disbursement vouchers, amounting to \$65,135, out of the period of availability of federal funds, were registered in the Head Start Fund as expenditures, but were paid from the Municipality's general fund.</li></ul>
<b>Criteria</b>	Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (6) establishes that "accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."
<b>Cause of Condition</b>	The Program internal control procedures failed to assure that all transactions were correctly registered and include all the required documentation.
<b>Effect of Condition</b>	The Program is not in compliance with the Code of Federal Regulation.
<b>Recommendation</b>	We recommend the Program to improve its internal control and procedures in order to assure that all transactions are clerically accurate, and disbursement vouchers contain all the necessary supporting documents before making the payments.
<b>Questioned Costs</b>	None

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      11-13 (continued)

**Management Response  
and Corrective Action**

Adequate corrective action has been taken by the Program Director to assure that the internal document prepared by the program staff with the specific order to the supplier include the responsible officer authorization signature. Also, a copy of the internal documents is sent to Municipal Pre-Audit Office with the related invoice, to the corresponding evaluation and validation.

The Program Director and the Municipal Finance Director will take the necessary measurements to avoid that disbursement vouchers paid from Municipality's general fund being registered in the Head Start Fund as expenditures.

Partially Completed

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mrs. María A. Ruiz, Program Director and Mrs. Ramona Pacheco, Finance and Budget Director.

Section III – Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	11-14
<b>Program</b>	Head Start Cluster; Head Start Program (CFDA. No. 93.600), ARRA - Head Start (CFDA No. 93.708) & ARRA – Early Head Start (CFDA No. 93.709); U.S. Department of Health and Human Services
<b>Requirement</b>	Matching, Level of Effort, Earmarking – Administrative Cost Limits (G)
<b>Statement of Condition</b>	The accounting system maintained by Head Start Program did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percent (15%) administrative costs limit.
<b>Criteria</b>	45 CFR, Subpart C, Section 92.20 (a) (2) states that the sub grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.
<b>Cause of Condition</b>	The program accounting records did not provide a chart of accounts to individually account, programmatic and administrative expenditures.
<b>Effect of Condition</b>	The program is not in-compliance with 45 CFR, Subpart C.
<b>Recommendation</b>	We recommend management to modify the accounting system chart of accounts to create a separate account for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>The Program will prepare purchase orders separated for administrative and programmatic expenditures and will identify and allocated appropriately cost with dual benefits, using a cost-benefit proportion.</p> <p>Still in Process</p> <p>Implementation Date: During Fiscal Year 2011-2012</p> <p>Responsible Person: Mrs. María A. Ruiz, Program Director</p>

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>11-15</b>
<b>Program</b>	<b>Head Start Cluster; Head Start Program (CFDA. No. 93.600), ARRA - Head Start (CFDA No. 93.708) &amp; ARRA – Early Head Start (CFDA No. 93.709); U.S. Department of Health and Human Services</b>
<b>Requirement</b>	<b>Period of Availability of Federal Funds (H) (MW)</b>
<b>Statement of Condition</b>	<p>Budget obligations are made in order to keep control of the funds available for expending. On our review over the transactions registered until June 30, 2011, we found disbursement vouchers accounted with budget obligations issued in 2009, for services received out of the period of availability of these funds, in some cases. Therefore, the Municipality had to assume the payment for these disbursement vouchers.</p> <p>During our test of over fifty five (55) disbursement vouchers, we noted the following situations:</p> <ul style="list-style-type: none"><li>a. One (1) disbursement voucher, amounting to \$11,202.05, with an obligation from 2009 was charged as 2011 expenditure.</li><li>b. Eleven (11) disbursement vouchers, amounting to \$65,754.17, with obligations from 2010 were charged as 2011 expenditures.</li></ul> <p>We did not obtain evidence of Agency waiver to extend the ninety days period to liquidate all open obligations from 2009 and 2010.</p>
<b>Criteria</b>	<p>45 CFR Part 92, Subpart C, Section 92.23 (b), Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.</p> <p>A-102 Common Rule, .23. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will required payment by the non-Federal entity during the same or a future period.</p>
<b>Cause of Condition</b>	<p>The Program does not have an effective internal control which can demonstrate and monitor all of its outstanding obligations which are settled for payments at the end of the period of availability of the federal grant award. Open obligations are not been cleared at the liquidation date of the program year in order to avoid working with no funding obligations, and compromising the budget for the next program year.</p>

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>11-15 (continued)</b>
<b>Effect of Condition</b>	The Program is not in compliance with the 45 CFR Part 92, Subpart C, Section 92.
<b>Recommendation</b>	We recommend that the Program should improve its internal control procedures over the liquidation of obligations incurred in order to comply with the law and regulations in force.
<b>Questioned Cost</b>	\$76,956.22
<b>Management Response and Corrective Action</b>	<p>A budgetary liquidation will be prepared beginning in December 2012 to determine the necessity to request to the Agency a waiver to extend the ninety days period to liquidate all future open obligations.</p> <p>Also, internal controls will be strengthened in order to assure that open obligations being cleared at liquidation date and to avoid compromise the budget assigned for the next program year.</p> <p>Still in Process</p> <p>Implementation Date: Immediately</p> <p>Responsible Person: Mrs. María A. Ruiz, Program Director</p>

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>11-16</b>
<b>Program</b>	<b>Head Start Cluster; Head Start Program (CFDA. No. 93.600), ARRA - Head Start (CFDA No. 93.708) &amp; ARRA – Early Head Start (CFDA No. 93.709); U.S. Department of Health and Human Services</b>
<b>Requirement</b>	<b>Procurement and Suspension and Debarment (I) (MW)</b>
<b>Statement of Condition</b>	<p>We have performed audit procedures to eight (8) contracts and noted the following exceptions:</p> <ul style="list-style-type: none"><li>a. Seven (7) contracts did not include provisions for granting access to GAO or other federally agency, to books, documents, etc.</li><li>b. Seven (7) contracts did not include provision for retention of all required records for three years.</li><li>c. One (1) contract did not contain contractual legal remedies when contractor violates contract term, and does not provide for such sanctions and penalties as may be appropriate.</li><li>d. One (1) contract did not include provision for termination by grantee by default.</li></ul>
<b>Criteria</b>	<p>45 CFR Parts 92, Subpart C, Section 92.36, (a), (b) (I), (b) (2), States. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Other grantees and subgrantees will follow paragraphs (b) through (i) in this section. 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. Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.</p> <p>45 CFR Part 92, Subpart C, Section 92.36 (1), Contract provisions. A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy. (I) Administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate. (2) Termination for</p>

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **11-16 (continued)**

**Criteria**                      (continued)

cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement. (10) Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions. (11) Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.

**Cause of Condition**      The lack of communication between the Municipality's Legal Department and the Program caused the omission of state and federal clauses as required by law and regulation. In addition, the Program does not have an effective internal control over the procurement process.

**Effect of Condition**      The Program is not in compliance with the 45 CFR Part 92, Subpart C, Section 92.36.

**Recommendation**        The Program should take the necessary actions required in the Program's Management in order to comply with the Federal and State Laws. We recommend Management to update a contract sample according with the federal requirement.

**Questioned Cost**          None

**Management Response and Corrective Action**      The corrective action related to this finding was taken when the prior year single audit was discussed with the Program Management. The cases mentioned in this finding are related to contracts signed before the corrective action implementation date.

The Program Director will require to the Legal Services Office to instruct this Lawyers about the contract provisions required by the 45 CFR Part 92, Subpart C, Section 92.36 (1).

Partially Completed

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mrs. María A. Ruiz, Program Director

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	11-17
<b>Program</b>	Head Start Cluster; Head Start Program (CFDA. No. 93.600), ARRA - Head Start (CFDA No. 93.708) & ARRA – Early Head Start (CFDA No. 93.709); U.S. Department of Health and Human Services
<b>Requirement</b>	Accounting Records (L) (MW)
<b>Statement of Condition</b>	During our audit, we noted that the Program did not maintain an adequate set of accounting records for Head Start Program to fairly present the financial position of the program and results of its operations.
<b>Criteria</b>	<p>45 CFR Part 92. Subpart C. Section 92.20 (a) (2), State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.</p> <p>45 CFR Part 92, Subpart C, Section 92.20, (b) (4), Budget control. 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.</p>
<b>Cause of Condition</b>	The Program does not have an effective monitoring system to monitor the approved budget, obligations and expenditures.
<b>Effect of Condition</b>	The Program is not in compliance with the 45 CFR Part 92, Subpart C, Section 92.20.
<b>Recommendation</b>	Management should take necessary steps on the evaluation of the budget and actual expenditures. The Program must give financial training to the accountants in charge in the preparation of budget and financial report to ascertain that: (1) the accounting system comply with state and federal law, (2) the budget is prepared according to realistic needs and is expended as established. In addition, the Program should implement internal control procedures to assure that the use of Federal funds is restricted.
<b>Questioned Cost</b>	None

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      11-17 (continued)

**Management Response  
and Corrective Action**

The Program Accounting Supervisor trained the employee in charge in the preparation of budget and financial report to ascertain that the accounting system complies with state and federal law and that the budget be prepared according to realistic needs and be expended as established. In addition, the Program will implement internal control procedures to assure that the use of Federal funds is restricted.

Partially Completed

Implementation Date: Immediately

Responsible Person: Mrs. María A. Ruiz, Program Director

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	11-18
<b>Program</b>	Head Start Cluster; Head Start Program (CFDA. No. 93.600), ARRA - Head Start (CFDA No. 93.708) & ARRA – Early Head Start (CFDA No. 93.709); U.S. Department of Health and Human Services
<b>Requirement</b>	Reporting - Financial Administration (L) (MW)
<b>Statement of Condition</b>	In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report and the quarterly Cash Transaction Reports submitted to the federal agency and the amounts detailed in the general ledger, and bank reconciliations. As result, the financial reports do not agree with the program accounting records.
<b>Criteria</b>	The OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.
<b>Cause of Condition</b>	Adequate internal controls do not exist to assure the correctness of closing reports submitted to the federal agencies.
<b>Effect of Condition</b>	The program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1).
<b>Recommendation</b>	We recommend the Program to establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. The Program fiscal area must establish adequate communication channels with the Finance Department in order to obtain documental evidence related to obligations issued, cash receipt and disbursements in a daily manner, in order to be posted in the accounting register maintained by the Program. The Program fiscal area must assure that accounting records are updated at the end of each month in order to prepare accurate reports to the federal agency. In addition, the accountant must assure that the cash register and the general ledger are duly reconciled and journal entries posted in the general ledger are duly documented and explained. We consider that the Program Director must evaluate the implementation of a computer accounting software to maintain the program books. Due to the large volume of transactions manual books are considered inefficient.
<b>Questioned Costs</b>	None

**Section III – Major Federal Award Program Findings and Questioned Costs**

**Finding Reference**      **11-18 (continued)**

**Management Response  
and Corrective Action**

The Municipal Finance Director will assign an employee the responsibility of support the Program in establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. Such employee will also support the program fiscal area in obtain documental evidence related to obligations issued, cash receipt and disbursements in a daily manner, in order to be posted in the accounting register maintained by the Program.

With the support of the Municipal Finance Department, the Program fiscal area will assure that accounting records are updated at the end of each month in order to prepare accurate reports to the federal agency. The cash register and the general ledger will be duly reconciled and journal entries posted in the general ledger will be duly documented and explained.

Still in Process

Implementation Date: During Fiscal Year 2011-2012

Responsible Person: Mrs. María A. Ruiz, Program Director and Mrs. Ramona Pacheco, Finance and Budget Director.

Section III – Major Federal Award Program Findings and Questioned Costs

<b>Finding Reference</b>	11-19
<b>Program</b>	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services
<b>Requirement</b>	Cash Management (C) (MW)
<b>Statement of Condition</b>	<p>During our cash management test, we noted the following situations:</p> <ul style="list-style-type: none"><li>a. The internal control over cash not effective since it holding excessive cash balance in its bank accounts. The program has not established procedures to minimize the time elapsing between the transfer funds and disbursements.</li><li>b. The program makes two (2) requisitions payroll of July and August 2010 and these were not reimbursed to General Fund during the fiscal year 2010-2011.</li><li>c. The program did not confirm the "Payment Request" process before the release. Five (5) fund requisitions were made without the payment request was completed in all its parts.</li><li>d. The program maintains old cash balances that have not been used.</li><li>e. The program maintained an average monthly cash balance of \$69,828 during the fiscal year 2010-2011.</li></ul>
<b>Criteria</b>	<p>45 CFR Subpart C, Section 92.21 (b), (c), Basic Standard, Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or sub grantee, in accordance with Treasury regulations.</p> <p>45 CFR Subpart C, Section 92.20 (b) (7), Cash Management. Procedures for minimizing the time elapsing between the transfers of funds form the U.S. Treasury and disbursement by grantees and sub grantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on sub grantees cash balances 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 electric transfer of funds methods, the grantee must make drawdown's as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their sub grantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.</p>

**Section III – Major Federal Award Program Findings and Questioned Costs**

<b>Finding Reference</b>	<b>11-19 (continued)</b>
<b>Cause of Condition</b>	The program did not follow the internal control procedures established for the disbursements. Also, the Program's internal control over cash is not effective since it is holding excessive cash balance 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.
<b>Effect of Condition</b>	Excessive cash balances kept by program to cover disbursements in against of the procedures recommended by the federal regulations.
<b>Recommendation</b>	The Municipality should take the necessary actions on disburses funds within the time constraints imposed by the federal requirement and avoid held excessive cash balance in bank account.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>The Program Director has taken the necessary actions to achieve the disbursement of funds within the time constraints imposed by the federal requirement and avoid holding excessive cash balance in bank account.</p> <p>The Municipality has requested counseling to the federal agency to determine the correct procedure to return back excessive fund deposited and not used.</p> <p>Partially Corrected</p> <p>Implementation Date: During Fiscal Year 2011-2012</p> <p>Responsible Person: Mrs. María M. Rivera Program Director Mrs. Miriam Blanco, Administrative Assistant</p>

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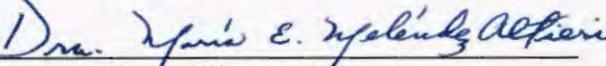
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2010-01 (FS)	Operating Deficit of General Fund (MW)	As of June 30, 2010, the Municipality closed with an accumulated unreserved (deficit) fund balance of \$34,845,366 in the general fund as presented in the balance sheet-governmental funds. Also, this is the third consecutive fiscal year that the Municipality closed current operations reporting a deficit. The deficit was caused by the overstatement of estimated revenues and/or the incurrence of obligations without credit available in the budgetary accounts.	<p>The Municipality of Ponce took the following measurements to control the expenditures and to reduce the accumulated deficit:</p> <p>On July 2010 a labor reduction policy was implemented consisting in reducing to all employees, one (1) labor lay per month and 5% of reduction in the salaries for Department Directors. A similar policy was implemented on July, 2009 but the reduction to all employees was of two (2) labor days per month.</p> <p>Beginning on July 2009, the tax rate applicable to real and personal property was increased.</p> <p>An aggressive debt collection plan was implemented by the Finance Director in order to obtain</p>		Not resolved yet. See current finding number 2011-01.

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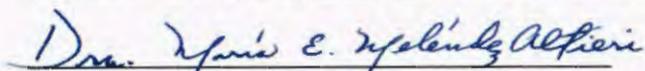
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>additional resources of income related to municipal licenses tax, property tax, and construction permits.</p> <p>A provision for deficit reserve of \$100,000 was included in the municipal budget of the fiscal year 2010-2011.</p>		
2010-02 (FS)	Financial Reporting-Accounting Records (MW)	During our examination of the Municipality's accounting system, we noted that the computerized accounting system does not provide for adequate and effective financial information. As a consequence, the Finance and Budget Department personnel use, spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation.	On March 23 2011, the Finance Director designated a special committee to evaluate the information system (SIGMA). The committee evaluated the mentioned deficiencies and submitted a written report containing recommendations to replace the information system. The special committee was integrated by the Accounting Supervisor, the Director of the Information and Technology Department and the Municipal		Not resolved yet. See current year finding number 2011-02.

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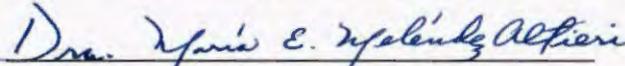
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>Officials responsible to prepare the financial statements.</p> <p>The Municipality will acquire a new version of the information system (SIGMA) during the next fiscal year.</p>		
2010-03-(FS)	Municipal License Tax Revenues (MW)	Municipal license tax revenues of the fiscal year 2010-2011, which were collected in advance from taxpayers between January 1 and June 30, 2010 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2010. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2010-2011, and could not be used to pay obligations of the prior year. These transactions were not authorized by Municipal Legislature, by Ordinance or Resolution.	With the adoption of the corrective actions mentioned in the findings 2009-01 and 2010-01, and the preparation of cash flow forecasts and projections to anticipate cash flow shortage, the Municipality expects to avoid in future years the use of the licenses tax revenue collection in advance to cover operating costs and cash flows shortages of the current fiscal year.		Not resolved yet. See current finding number 2011-03.

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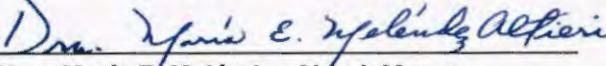
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2010-04 (FS)	Payroll and Related Liabilities - Personnel, Employment, Rate and Authorizations Timekeeping	<p>During our test, we examined thirty-five (35) employee files, the assistance time cards and accrue vacation and sick cards; after procedures performed, we noted the following situations:</p> <p>a. In two (2) cases, the sick vacations days at 6/30/10 per Compensated Cards did not agree with the License Record prepared by client. The differences fluctuate between 4 to 18 days.</p> <p>b. In four (4) cases, the regular vacations days at 6/30/10 per Compensated Cards did not agree with the License Record prepared by client. The differences fluctuate between 2 to 4 days.</p> <p>c. In one (1) case, the Municipality did not decreased from the register the days the employee was absent.</p> <p>d. In six (6) cases, the gross amount payment per payroll did not agree with the gross amount payment included in the employee's file documentation.</p>	<p>The new personnel director evaluated the established internal procedures related to the employee's files and payroll payments in order to improve such procedures and to assure that mentioned situations are not repeated. The Director, also, assigned to an employee the responsibility of evaluate the employee's files, at random, to verify the compliance with the required documents.</p>		<p>Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.</p>

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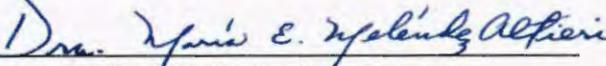
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		b. Davis Bacon Act;  C. Sections 103 and 107 of the Contract Work Hours & Safety Standard Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations;  d. Granting access to GAO or other federally agency, to books, documents, etc.;  e. Clean Air Act and Water Act;  f. Energy Policy and Conservation Act;  g. Retention of all required records for three years.			
2010-07 Allowable Cost/Cost Principles and Procurement and Suspension and Debarment (B), (I),(MW)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	In our test of fifteen (15) disbursements voucher, we noted the following situation: From January 2010 to February 2010 were ordered and paid services to a contractor for improvements to a building where Section 8 Program has its facilities for \$63,201.23 without getting into a competition process.	The Program evaluated its internal controls over disbursement and procurement to avoid the repetition of the mentioned situation.		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.

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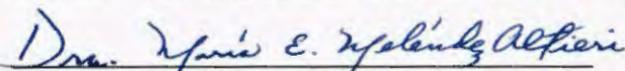
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2010-08 Reporting (L)	Home Investment Partnership Program (CFDA NO. 14.239); U.S. Department of Housing and Urban Development	In our Reporting Test, we noted following:  There is a difference of \$435,494 between the IDIS Report (CO4PR27) and the programs' accounting records. As of June 30, 2010, the amount disbursed per IDIS was \$11,361,024 versus \$11,796,519 per accounting records. The differences arise from grants from the 2000 through 2009 program years.	The Program implemented adequate procedures to prepare and submit on time, all financial reports, including the IDIS Report (CO4PR27).		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.
2010-09 Cash Management (C) (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	We realized Cash Management Test for Section 8 Housing Choice Voucher Program and after our procedures we found that the Program maintained during the current fiscal year average cash balance in books of approximately \$4,342,400.05. At June 30, 2010, the cash balance in books was \$4,344,994.36. This situation presents potential for excessive federal cash on hand.	The Program management will take the necessities measurements to avoid accumulate additional excessive cash on hand and will take the adequate actions to use the excessive funds to cover necessities to improve the services to the participants and the employees work conditions, in compliance with the Program regulation.		Not resolved yet. See current finding number 2011-07.
2010-10	Section 8 Housing Choice	We have performed an eligibility test for sixty (60)	The Program has strengthened		Not resolved yet.

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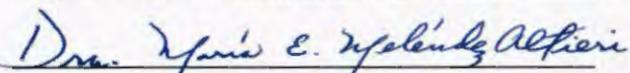
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
Participant Eligibility Test (E) (MW)	Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	<p>participant's files and noted the following exceptions:</p> <ul style="list-style-type: none"> <li>a. In eight (8) participant's files examined the PHA staff did not include evidence of the third party verifications.</li> <li>b. In six (6) cases, the eligibility determination made by and approved by responsible officials did not agreed with the third party documentation.</li> <li>c. In six (6) cases, the tenant rent payment calculation was not determined in accordance with federal regulations.</li> <li>d. In four (4) participant's files examined, the Inspection Form for fiscal year audited was not available for inspection.</li> <li>e. In one (1) case, the Inspection Form was incomplete.</li> </ul>	internal supervisory quality controls, establishing a procedure of double evaluation of the participant files; by the supervisor and by the Quality Control Unit. Adequate forms and checklists have been implemented to document the evaluation.		See current finding number 2011-08.

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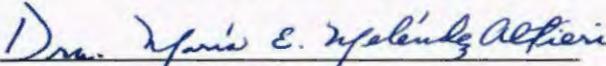
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		<p>f. In nine (9) participant's files examined, the HAP Contract applicable for the fiscal year audited was not available for inspection.</p> <p>g. In two (2) participant's files, the Form HUD-50058, Family Report (OMB No. 2577-0083), applicable for the fiscal year audited was not available for inspection.</p> <p>h. In nineteen (19) cases, the PHA did not complete the Owner's Disclosure to the tenant of the presence of any known lead-based paint and/or lead based paint hazards.</p>			
2010-11 Allowable Cost/Cost Principles and Procurement and Suspension and Debarment (B), (I), (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development Section 8 Housing Choice Vouchers (CFDA 14.871), U.S.	In our test of twenty (20) administrative disbursements, we noted the following situation: From January 2010 to February 2010 were ordered and paid services to a contractor for improvements to a building where Section 8 Program has its facilities for \$17,751.23 without getting into a competition process.	The Program evaluated its internal controls over disbursement and procurement to avoid the repetition of the mentioned situation.		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011

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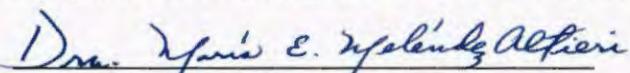
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
	Department of Housing and Urban Development				
2010-12 Financial Reporting (L), (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	In our test over "Voucher for Payment of Annual Contribution and Operation Statement Report" versus accounting records, we noted that in the period covered from July 1, 2009 to June 30, 2010 the following items reported certain differences: <ul style="list-style-type: none"> <li>a. The "Portability In" HAP Voucher Expense, for all months.</li> <li>b. The "Fraud Recovery Amount Booked", for all months.</li> <li>c. The Administrative Expense, for the months of July 09, August 09, December 09 and March 10 through June 10.</li> <li>d. The HAP Voucher Unit, for the all months.</li> <li>e. The "Portability-In "HAP Voucher Unit, for the months September 09, January 10, February 10 and March 10.</li> </ul>	The Municipal Finance Director will establish internal control procedures to assure the preparation of financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities. Such internal controls procedures will include the timely reconciliation of federal funds reports with the accounting records.  The Program supervisor revised the tasks assigned to the accounting department personnel in order to achieve adequate distribution of tasks and assure the proper preparation of the reports.		Not resolved yet. See current finding number 2011-09.

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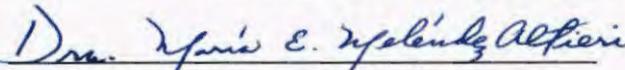
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2010-13 Special Test (N)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	We noted that the Section 8 Housing Choice Vouchers Program did not comply with the compliance requirement of Depository Agreements. The PHA is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999)	The Finance Director of the Municipality entered into depository agreement with the financial institution using the form required by HUD. (Form HUD-51999)		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.
2010-14 Special Test (L) (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	We performed a Reporting Test and we noted the unaudited financial data (submitted electronically) was not submitted to HUD through the Real Estate Assessment Center (REAC) in the stipulated time. (August 31, 2010).	The Program's accountant submitted the GAAP-based unaudited and audited financial information electronically to HUD.  Corrective action measurements were taken to avoid that this situation be repeated.		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.
2010-15 Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and	Financial Reporting - Accounting Records (L) (MW)	During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.	The Program Management have been implementing an accounting program (Micro-information Product Non For Profit System-MIP), which contains adequate procedures for the timely		Not resolved yet. See current finding number 2011-10.

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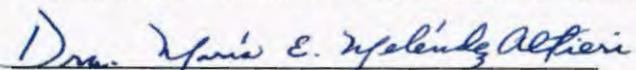
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2010-17 Cash Management (C) (MW)	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services	<p>We performed the Cash Management test over twenty-two (22) requisitions of funds and after our procedures we found the following exceptions:</p> <ul style="list-style-type: none"> <li>a. The amount of request for funds and supporting documents does not agree. Funding request for \$10,000.64 was not reconciled and corrected in the next request.</li> <li>b. Four (4) requisitions of funds did not include the signature of the Program Officer who verified and approved the request.</li> <li>c. One (1) requisition of funds was not approved by the person authorized in the HHS Payment Management System.</li> <li>d. We could not trace the requisitions to the disbursements in three (3) cases.</li> <li>e. The bank reconciliations, shows average monthly cash balance of \$46,963. The</li> </ul>	<p>The Program Director will change the person authorized to approve requisitions of funds in the HHS Payment Management System. The Head Start-ARRA and Early Head Start-ARRA account were closed, but the program director will continue establishing adequate internal controls policies to reduce the average monthly cash balance in the Head Start Bank Account. Also, internal controls will be strengthened in order to reduce the time elapsing between the deposit of funds and the disbursements.</p>		Not resolved yet. See current year finding number 2011-12.

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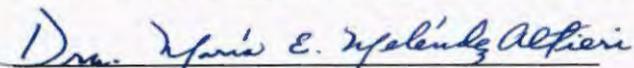
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>cash balance shows a higher cash balance in the following months:</p> <p>1. December 2009 \$ 329,028 2. November 2009 \$ 82,028</p>			
2010-18 Expenditures for Goods and Services and Accounts Payable	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services.	<p>We performed a cash disbursement test and we select forty-nine (49) disbursement vouchers which belonged to Head Start Program. The following will summarize the internal control exceptions noted:</p> <p>a. The purchase orders included in seventeen (17) disbursement vouchers of Head Start Program do not include the description of the services or goods ordered. In addition, an internal document is prepared by the program staff; with the specific order to the supplier; the same did not include the responsible officer signature.</p> <p>b. In one (1) disbursement voucher of Head Start Program the receiving report was not available for our examination;</p> <p>c. One (1) disbursement voucher of Head Start</p>	<p>Adequate corrective action has been taken by the program director to assure that the internal document prepared by the program staff with the specific order to the supplier include the responsible officer authorization signature. Also, a copy of the internal documents is sent to Municipal Pre-Audit Office with the related invoice, to the corresponding evaluation and validation.</p> <p>The Program Director and the Municipal Finance Director will take the necessary measurements to avoid that disbursement vouchers paid from</p>		Not resolved yet. See current year finding number 2010-13.

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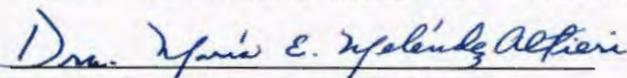
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>Program was not signed by the official payer;</p> <p>d. In two (2) disbursement voucher of Head Start Program, the goods or services were received after the contract and purchase order's deadline;</p> <p>e. Ten (10) disbursement vouchers out of the period of availability of federal funds, were registered in the Head Start Fund as expenditures, but were paid from the Municipality's general fund bank account. New vouchers, even new obligations for the general fund, were not issued to register these payments as expenditures of the general fund. This situation includes twenty-eight disbursements that amounted to \$140,947.45.</p>	Municipality's general fund being registered in the Head Start Fund as expenditures.		
2010-19 Participants' Eligibility (E)	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services	<p>We have performed an Eligibility test to forty (40) participants' files and noted the following exceptions:</p> <p>1. For seven (7) cases the program staff did not request the family all the necessary information and documentation to properly evaluate the eligibility of</p>	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.

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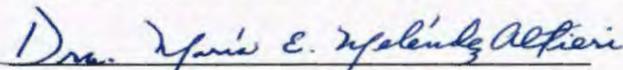
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		disbursement vouchers.  During our test of over forty-nine (49) disbursement vouchers, we noted that three (3) invoices amounting \$68,086.53 were paid out of the 90 days after the close of the grant award. We did not obtain evidence of Agency waiver to extended deadline.	Also, internal controls will be strengthened in order to assure that open obligations being cleared at liquidation date and to avoid compromise the budget assigned for the next program year.		
2010-22 Procurement and Suspension and Debarment (I) (MW)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	We have performed audit procedures to ten (10) contracts and noted the following exceptions:  a. Three (3) contracts do not include provision for compliance with sections 103 and 107 of the Contract Work Hours & Safety Standards Act.  b. Five (5) contracts do not include provisions for granting access to GAO or other federally agency, to books, documents, etc.  c. Three (3) contracts do not include provision for compliance with Energy Policy, and Conservation Act.	The corrective action related to this finding was taken when the prior year single audit was discussed with the program management. The cases mentioned in this finding are related to contracts signed before the corrective action implementation date.  The Program Director will require to the Legal Services Office to instruct this Lawyers about the contract provisions required by the 45 CFR Part 92, Subpart C, Section 92.36 (1).		Not resolved yet. See current year finding number 2010-16.

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I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

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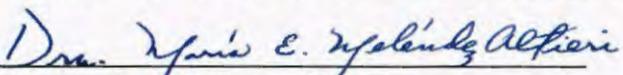
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>d. Three contracts (3) do not include provision for compliance with the Copeland "Anti-kickback".</p> <p>e. Five (5) contracts do not include provision for retention of all required records for three years.</p> <p>f. Three (3) contracts do not include provision for compliance with Executive Order 11246 "Equal Employment Opportunity"</p> <p>g. Three (3) contracts do not include provision for compliance with Davis Bacon Act</p> <p>h. Two (2) contracts do not include provision for compliance with the Clean Air Act and Water Act</p>			
2010-23	Head Start (CFDA. No.	During our audit, we noted that the Program did not	The Program Accounting		Not resolved yet.

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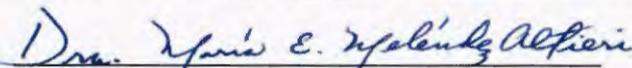
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
Accounting Records (L) (MW)	93.600); U.S. Department of Health and Human Services	maintain an adequate set of accounting records for Head Start Program to fairly present the financial position of the program and results of its operations.	Supervisor trained to the employee in charge in the preparation of budget and financial report to ascertain that the accounting system complies with state and federal law and that the budget be prepared according to realistic needs and be expended as established. In addition, the Program will implement internal control procedures to assure that the use of Federal funds is restricted.		See current finding number 2010-17.
2010-24 Reporting - Financial Administration (L) (MW)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report and the quarterly Cash Transaction Reports submitted to the federal agency and the amounts detailed in the general ledger, and bank reconciliations. As result, the financial reports do not agree with the program accounting records.	The Municipal Finance Director will assign to an employee the responsibility of support the Program in establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. Such employee will also support the program fiscal area in obtain documental		Not resolved yet. See current finding number 2010-18.

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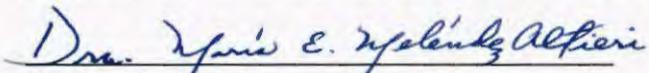
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>evidence related to obligations issued, cash receipt and disbursements in a daily manner, in order to be posted in the accounting register maintained by the Program.</p> <p>With the support of the Municipal Finance Department, the Program fiscal area will assure that accounting records are updated at the end of each month in order to prepare accurate reports to the federal agency. The cash register and the general ledger will be duly reconciled and journal entries posted in the general ledger will be duly documented and explained.</p>		
2010-25 Cash Management (C)	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services	<p>During our cash management test, we noted the following situations:</p> <p>a. Five (5) disbursements were made without the Payment Request completed in all of</p>	The Program Director has taken the necessary actions to achieve the disbursement of funds within the time constraints imposed by the federal requirement and avoid		Not resolved yet. See current year finding number 2010-19.

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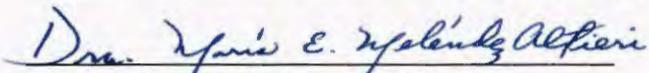
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>its parts. The Program authorized the payments before cash availability creating an overdraft in the bank account.</p> <p>b. The program maintains prior years' balances that have not been used.</p> <p>c. The program maintained an average monthly cash balance of \$51,893.25 during the fiscal year 2009-2010.</p>	<p>holding excessive cash balance in bank account.</p> <p>The Municipality has requested counseling to the federal agency to determine the correct procedure to return back excessive fund deposited and not used.</p>		
2010-26 - HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services	Matching, Level of Effort, Earmarking (G)	<p>During our special test (WICY Expenditures), we found that the program did not comply with the ratio of the population that involved (women, youth, infants and children). Also, in the "WICY Expenditure Narrative", the management used the incorrect Part A% for children population and only reported the women expenditures instead of the total WICY population.</p> <p>FY 09 PART A USED FOR SERVICES-WICY EXPENDITURE NARRATIVE (before audit)</p>	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.

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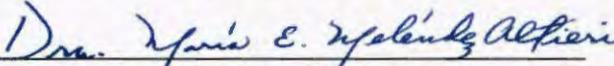
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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Original Finding Number	Finding	Condition				Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status	
		Population	Part A%	CDC%	Differences				
		Women	27.50%	29.80 %	(2.38)				
		Children	0.06%	0.55%	(0.49)				
		Youth	4.00%	3.85%	0.15				
		FY 09 PART A USED FOR SERVICESWICY EXPENDITURE NARRATIVE (after audit)							
		Population	Part A%	CDC%	Differences				
		Women	27.69%	29.80 %	(2.19)				
		Children	0.05%	0.55%	(0.50)				
		Youth	4.15%	3.85%	.30				
		Also, our test of cost per patient served revealed							

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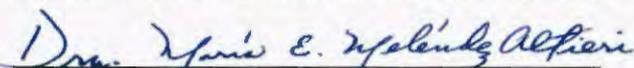
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		differences between expenditures reported in the WICY expenditures worksheet and accounting records. As a result, the percentage reported was not correct.			
2010-27 Period of Availability of Federal Funds (H) (MW)	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services	The program does not prepare a detailed list of outstanding obligations to be settled within the period of 90 days after the end of the budget period.	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.
2010-28 Reporting Financial Administration (L)	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services	During our audit, we noted that the Program did not maintain an adequate set of accounting records that present the financial position of the program and results of its operations.  In our Reporting Test, we found differences between the amounts reported as federal expenditures and the WICY Expenditure Worksheet and Narrative Report. As result, the financial reports do not agree with the program accounting records.	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.

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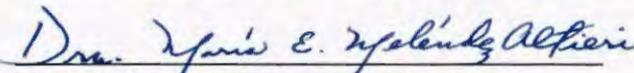
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2009-01 (FS)	Operating Deficit of General Fund (MW)	As of June 30, 2009, the Municipality closed with an accumulated unreserved (deficit) fund balance of \$41,198,055 in the general fund as presented in the balance sheet-governmental funds. Also, this is the second consecutive fiscal year that the Municipality closed current operations reporting a deficit. The deficit was caused by the overstatement of estimated revenues and/or the incurrence of obligations without credit available in the budgetary accounts.	<p>The Municipality of Ponce took the following measurements to control the expenditures and to reduce the accumulated deficit:</p> <p>On July 2010 a labor reduction policy was implemented consisting in reducing to all employees, one (1) labor lay per month and 5% of reduction in the salaries for Department Directors. A similar policy was implemented on July, 2009 but the reduction to all employees was of two (2) labor days per month.</p> <p>Beginning on July 2009, the tax rate applicable to real and personal property was increased.</p> <p>An aggressive debt collection</p>		Not resolved yet. See current finding number 2011-01.

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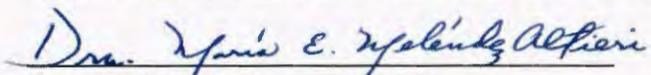
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			<p>plan was implemented by the Finance Director in order to obtain additional resources of income related to municipal licenses tax, property tax, and construction permits.</p> <p>A provision for deficit reserve of \$100,000 was included in the municipal budget of the fiscal year 2010-2011.</p>		
2009-02 (FS)	Financial Reporting - Accounting Records (MW)	During our examination of the Municipality's accounting system, we noted that the computerized accounting system does not provide for adequate and effective financial information. As a consequence, the Finance and Budget Department personnel use, spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation.	On March 23 2011, the Finance Director designated a special committee to evaluate the information system (SIGMA). The committee evaluated the mentioned deficiencies and submitted a written report containing recommendations to replace the information system. The special committee was integrated by the Accounting Supervisor, the Director of the		Not resolved yet. See current year finding number 2011-02.

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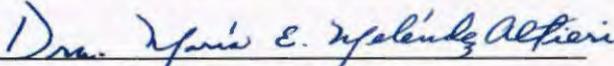
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			Information and Technology Department and the Municipal Officials responsible to prepare the financial statements.  The Municipality will acquire a new version of the information system (SIGMA) during the next fiscal year.		
2009-03 (FS)	Municipal License Tax Revenues (MW)	Municipal license tax revenues of the fiscal year 2009-2010, which were collected in advance from taxpayers between January 1 and June 30, 2009 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2009. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2009-2010, and could not be used to pay obligations of the prior year. These transactions were not authorized by Municipal Legislature, by Ordinance or Resolution.	With the adoption of the corrective actions mentioned in the findings 2009-01 and 2010-01, and the preparation of cash flow forecasts and projections to anticipate cash flow shortage, the Municipality expects to avoid in future years the use of the licenses tax revenue collection in advance to cover operating costs and cash flows shortages of the current fiscal year.		Not resolved yet. See current finding number 2011-03.

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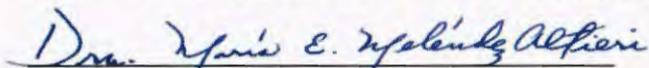
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2009-04 (FS)	Head Start Program (CFDA No. 93.600)	The Municipality have a loan debt with the Federal Agency (U.S. Department of Health and Human Services) by the amount of \$780,034 (principal due \$656,767 and interest due \$123,267) that has not been paid at the close of the audited fiscal year, June 30, 2009. According to the federal agency, the funds must be reimbursed from non-federal sources.	The Head Start Program Loan Debt mentioned in this finding is being repaid in a timely manner. On November 2009, a repayment agreement was signed between the Municipality of Ponce and the Health and Human Services Program Support Center. The Municipality agreed to make monthly payments of at least \$11,442.71, beginning on November 2009. Since the period November 2009 through January 2011, the Municipality has paid \$171,640.65 corresponding to the fifteen (15) expired installments.		Full corrective action has been taken. This finding was not repeated in fiscal years 2009-2010 and 2010-2011.
2009-05 (FA) Cash Management (C) (MW)	Head Start Program (CFDA No. 93.600)	We performed the Cash Management test and after our procedures we found the following exceptions:  a. Sixteen (16) requisitions of funds did	The Program Director will change the person authorized to approve requisitions of funds in the HHS Payment Management System. The Head Start-ARRA and Early Head Start-ARRA account were		Not resolved yet. See current year finding number 2011-12.

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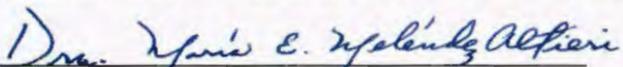
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		<p>not include the signature of the responsible officer who prepared the request.</p> <p>b. Three (3) requisitions of funds did not include the signature of the Program Officer who verified and approved the request.</p> <p>c. Ten (10) requisitions of funds were not approved by the person authorized in the HHS Payment Management System.</p> <p>d. The bank reconciliations, shows average monthly cash balance of \$25,500. The cash balance shows a higher cash balance in the following months:</p> <table style="margin-left: 40px;"> <tr> <td>1. July 2008</td> <td>\$47,317</td> </tr> <tr> <td>2. August 2008</td> <td>43,438</td> </tr> <tr> <td>3. September 2008</td> <td>43,438</td> </tr> <tr> <td>4. November 2008</td> <td>37,799</td> </tr> </table>	1. July 2008	\$47,317	2. August 2008	43,438	3. September 2008	43,438	4. November 2008	37,799	<p>closed, but the program director will continue establishing adequate internal controls policies to reduce the average monthly cash balance in the Head Start Bank Account. Also, internal controls will be strengthened in order to reduce the time elapsing between the deposit of funds and the disbursements.</p>		
1. July 2008	\$47,317												
2. August 2008	43,438												
3. September 2008	43,438												
4. November 2008	37,799												

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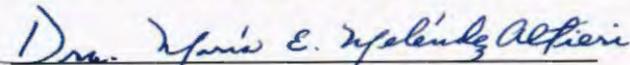
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		5. May 2008 40,224 6. June 2009 40,948			
2009-06 (FA) Participants' Eligibility (E) (MW)	Head Start Program (CFDA No. 93.600)	We have performed an Eligibility test to forty (40) participants' files and noted the following exceptions:  1. For sixteen (16) cases the program staff did not request the family all the necessary information and documentation to properly evaluate the eligibility of the candidates.  2. In two (2) cases the information and documentation of the family was not properly evaluated by the program staff, who failed to classify the candidates as above the poverty income guidelines.	The Program Director will instruct the personnel who evaluate the participant's eligibility about the necessity to require the information and documentation and to use properly income guidelines to perform an adequate evaluation of each case.  The existing checklist will be evaluated to assure that necessary information is included and documented.		Full corrective action has been taken. This finding was not repeated in fiscal years 2009-2010 and 2010-2011.
2009-07 (FA) Equipment and Real Management (F) (MW)	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services.	We performed audit procedures over Property Subsidiary Ledger, and we found the subsidiary was not updated. On our test, over ninety seven (97) additions of equipments of less than \$5,000, eighty two (82) items were not at the location indicated in	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal years

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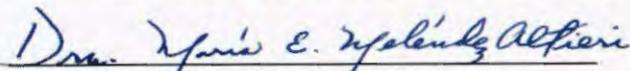
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		the Subsidiary Ledger.			2009-2010 and 2010-2011.
2009-08 (FA) Matching, Level of Effort, Earmarking – Administrative Cost Limits (G)	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services.	The accounting system maintained by Head Start Program did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percent (15%) administrative costs limit.	The Program will prepare purchase orders separated for administrative and programmatic expenditures and will indentify and allocated appropriately cost with dual benefits, using a cost-benefit proportion.		Not resolved yet. See current year finding number 2011-14.
2009-09 (FA) Period of Availability of Federal Funds (H) (MW)	HEAD START (CFDA No. 93.600)	During our test of over forty (40) disbursement vouchers, we noted that seven (7) disbursements were paid 90 days after the close of the grant award. We did not obtain evidence of Agency waiver to extent deadline.	A budgetary liquidation will be prepared since December 2012 to determine the necessity to request to the Agency a waiver to extend the ninety days period to liquidate all future open obligations.  Also, internal controls will be strengthened in order to assure that open obligations being cleared at liquidation date and to		Not resolved yet. See current year finding number 2011-13.

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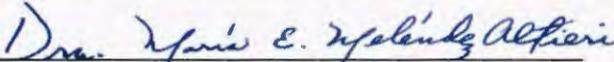
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			avoid compromise the budget assigned for the next program year.		
2009-10 (FA) Procurement and Suspension and Debarment (I) (MW)	HEAD START (CFDA No. 93.600)	<p>We have performed audit procedures to ten (10) contracts and noted the following exceptions:</p> <ul style="list-style-type: none"> <li>a. One (1) contract provision do not contain contractual legal remedies when contractor violates contract term, neither provide for such sanctions and penalties as may be appropriate.</li> <li>b. Two (2) contracts do not include provision for termination by grantee for default.</li> <li>c. Two (2) contracts do not include provision for compliance with sections 103 and 107 of the Contract Work Hours &amp; Safety Standards Act.</li> <li>d. Two (2) contracts do not include provisions for granting access to GAO or other federally agency, to books, documents, etc.</li> </ul>	<p>The corrective action related to this finding was taken when the prior year single audit was discussed with the program management. The cases mentioned in this finding are related to contracts signed before the corrective action implementation date.</p> <p>The Program Director will require to the Legal Services Office to instruct this Lawyers about the contract provisions required by the 45 CFR Part 92, Subpart C, Section 92.36 (1).</p>		Not resolved yet. See current year finding number 2011-16.

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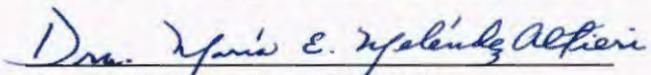
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		<p>e. Two (2) contracts do not include provision for compliance with Energy Policy, and Conservation Act.</p> <p>f. Two contracts (2) do not include provision for compliance with the Copeland "Anti-kickback".</p> <p>g. Two (2) contracts do not include provision for retention of all required records for three years.</p>			
2009-12 (FA) Reporting (L) (MW)	HEAD START (CFDA No. 93.600)	<p>During our audit, we noted that the Program did not maintain an adequate set of accounting records for Head Start Program to fairly present the financial position of the program and results of its operations.</p> <p>In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report submitted to the federal agency and the amounts detailed in the trial balance and the general ledger. As result, the financial reports do not agree with the program accounting records.</p>	The Municipal Finance Director will assign to an employee the responsibility of support the Program in establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. Such employee will also support the program fiscal area in obtain documental evidence related to obligations issued, cash receipt and		Not resolved yet. See current finding number 2011-18.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

  
Hon. María E. Meléndez Altieri, Mayor

March 31, 2012

Date

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

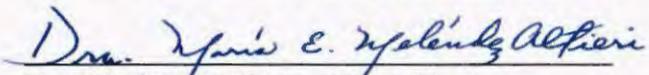
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>disbursements in a daily manner, in order to be posted in the accounting register maintained by the Program.</p> <p>With the support of the Municipal Finance Department, the Program fiscal area will assure that accounting records are updated at the end of each month in order to prepare accurate reports to the federal agency. The cash register and the general ledger will be duly reconciled and journal entries posted in the general ledger will be duly documented and explained.</p>		
2009-11 (FA) Accounting records (L) (MW)	HEAD START (CFDA No. 93.600)	During our test over the accounting management system, we detected that the Program is not spending federal funds according to the approved budget, resulting in obligations in excess of the	The Program Accounting Supervisor trained to the employee in charge in the preparation of budget and		Not resolved yet. See finding number 2011-17.

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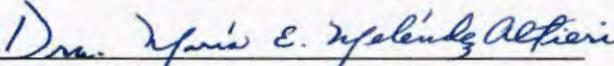
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		available funds. In addition, The Municipality had to absorb all pending obligations issued in excess of the established budget.	financial report to ascertain that the accounting system complies with state and federal law and that the budget be prepared according to realistic needs and be expended as established. In addition, the Program will implement internal control procedures to assure that the use of Federal funds is restricted.		
2009-14 (FA) – Cash Management (C) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	During our cash management test, we noted the following situations:  a. Two (2) fund requisitions were made in excess of program needs;  b. The program maintains old balances that have not been used;  c. The program maintained an average monthly cash balance of \$53,510.14 during the fiscal year 2008-2009.	The Program Director has taken the necessary actions to achieve the disbursement of funds within the time constraints imposed by the federal requirement and avoid holding excessive cash balance in bank account.  The Municipality has requested counseling to the federal agency to determine the correct procedure to return back		Not resolved yet. See current year finding number 2011-19.

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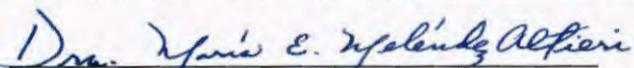
Contact Person: Mrs. Ramona Pacheco Machado, Finance and Budget Director

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			excessive fund deposited and not used.		
2009-15 (FA) - Earmarking Administrative Cost limits (G)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	The accounting system maintained by the program did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the ten (10%) administrative costs limit.	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal years 2009-2010 and 2010-2011.
2009-16 (FA) - Matching, Level of Effort, Earmarking (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	During our special test (WICY Expenditures), we found that the program did not comply with the ratio of the population that involved (women, youth, infants and children). The program staff used the wrong CARE Act Data Report (CADR) age breakouts to determinate the WICY Expenditures. Also, in the "WICY Expenditure Narrative", the management used the incorrect CDC% for the women population.	The Program took the appropriate actions to correct the conditions indicated in this finding.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.

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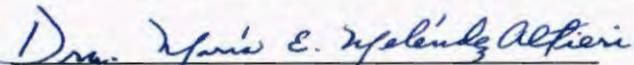
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		Also, our test of cost per patient served revealed differences between expenditures reported in the WICY expenditures worksheet and accounting records. As a result, the percentage reported was not correct.			
2009-18 (FA) - Period of Availability of Federal Funds (H) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	The program does not prepare a detailed list of outstanding obligations to be settled within the period of 90 days after the end of the budget period.	The Program took the appropriate actions to correct the conditions indicated in this finding.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.
2009-19 (FA) - Procurement and Suspension and Debarment (I)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	During our procurement contract provisions test of four (4) professional contracts, we found the following exceptions:  a. One (1) contract did not include provision for retention of all required records for three years.  b. Four (4) contracts did not include provision for compliance with the Bird-Anti-Lobbying	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.

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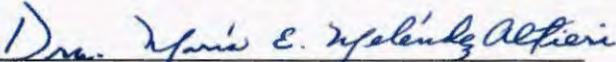
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		Certification.			
2009-20 (FA) - Reporting - Financial Administration (L) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	During our audit, we noted that the Program did not maintain an adequate set of accounting records that present the financial position of the program and results of its operations.  In our Reporting Test, we found differences between the amounts reported as federal expenditures and the Final Annual Progress Report and Financial Status Report. As result, the financial reports do not agree with the program accounting records.	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.
2009-17 (FA) - Sub-Recipient Monitoring (H) (MW)	HIV EMERGENCY RELIEF PROJECT GRANTS (CFDA NO. 93.914)	During our Sub-recipient Monitoring test, we found that the program did not comply with applicable requirements for fiscal monitoring to service provider's financial and accounting records.	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011.
2009-21 (FA) - Allowable Cost -	WORKFORCE INVESTMENT ACT (CFDA	During our disbursement test, we verified forty (40) disbursement vouchers related to program	The Program took the appropriate actions to correct the conditions		Full corrective action has been

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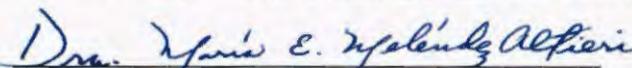
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
Cost Principles (B)	NO. 17.258-260)	<p>expenditures during the fiscal year 2008-2009. The following summarizes the situations found:</p> <p>a. Three (3) invoices, related to "On the Job Training" (OJT) agreements, were not mathematically accurate, resulting payments in excess of the correct amount. For two (2) of these invoices the excess were adjusted in a subsequent payment. At the time of our audit one (1) invoice was pending to correction.</p> <p>b. Eight (8) invoices paid in two (2) disbursement vouchers did not agree with supporting documents.</p>	indicated in this finding.		taken. This finding was not repeated in fiscal years 2009-2010 and 2010-2011.
2009-22 (FA) Financial Reporting - Accounting Records (L) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	<p>During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.</p> <p>The Section 8 Housing Vouchers Program</p>	The Program Management have been implementing an accounting program (Micro-information Product Non For Profit System-MIP), which contains adequate procedures for the timely conciliation of federal fund report with accounting records and to		Not resolved yet. See current years finding number 2011-10.

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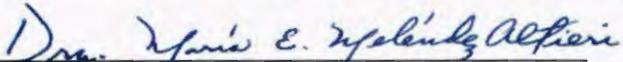
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		accounting records are not designed to provide information necessary for the preparation of the Financial Status, Supplemental Reports and Financial Assessment Subsystem (FDS) in accordance with compliance requirement program. The accounting system does not summarize the transactions in a formal chart of accounts in order to properly record and account for the transactions of all reports required by the program.	produce reliable financial data. The Program obtained additional support in the MIP implementation through a professional services contract.		
2009-23 (FA) Reporting (L) (MW)	SECTION 8 HOUSING CHOICE VOUCHER (CFDA No. 14.871)	We performed a Reporting Test and did not find evidence that GAAP-based audited financial data was submitted electronically to HUD for the fiscal year 2007-2008.	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal years 2009-2010 and 2010-2011.
2009-24 (FA) Cash Management (C)	COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT (CFDA No. 14.218)	During our audit of the program's bank reconciliations, we noted that the cash balance shown a higher average monthly cash balance by approximately \$27,000 in the following months; August 2008, November 2008, December 2008 and	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal

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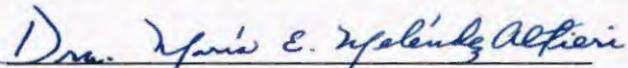
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		March 2009.			years 2009-2010 and 2010-2011.
2009-25 Reporting (L)	Home Investment Partnership Program (CFDA NO. 14.239); U.S. Department of Housing and Urban Development	In our Reporting Test, we noted following:  There is a difference of \$786,614 between the IDIS Report (CO4PR27) and the programs' accounting records. As of June 30, 2009, the amount disbursed per IDIS was \$9,420, 829 versus \$10,207,443 per accounting records. The differences arise from grants from the 2000 through 2008 program years.	The Program took the appropriate actions to correct the conditions indicated in this finding.		Full corrective action has been taken. This finding was not repeated in fiscal years 2009-2010 and 2010-2011.

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March 31, 2012

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