
COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

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

Year Ended June 30, 2013



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

Visit our website at www.visitponce.com

Hon. Maria E. Meléndez Altieri, Mayor

14-04-0083

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

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SECRET
MAY 2015

COMMONWEALTH OF PUERTO RICO
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BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS
AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT

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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 AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Ponce, Puerto Rico (Municipality)**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the **Municipality's** basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion on the Government-Wide Financial Statement – Statement of Net Position and Statement of Activities

The Municipality's financial statements do not include financial data for the legally separated discrete component units, "**Port of Ponce Authority (PPA)**". The disclosure of this information is required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of **Autonomous Municipality of Ponce** as of June 30, 2013, 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.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Ponce**, as of June 30, 2013, and the respective changes in its financial, for General Fund, Capital Projects Fund Bond Issues, Debt Service Fund, Health and Human Services Grants, Workforce Investment Act Grants, Housing & Urban Development Grants and Other Non-major Governmental Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **5** through **21** and Budgetary Comparison information on page **73**, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



López-Vega, CPA, PSC

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Autonomous Municipality of Ponce's** basic financial statements. The accompanying supplementary information – Financial Data Schedules shown in pages **75** thru **78** are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages **80** and **81** is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

The Financial Data Schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedules and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014, on our consideration of the **Autonomous Municipality of Ponce's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters.



López-Vega, CPA, PSC

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards (Continued)

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico

March 28, 2014

Stamp No. 2675814 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, 2013. 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, 2012. 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 2012-2013 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 2013 constitute factual evidence of the Municipality's economic situation by the end of such year. The following comments deserve special mention:

- ❑ Total assets of the Municipality amounted to \$487,090,340 which represents an decrease of 3% compared to prior fiscal year.
- ❑ At the end of fiscal year 2013, total liabilities amounted to \$392,495,676. Out of said amount, \$321,678,631 corresponded to long-term liabilities of which \$203,099,000 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 position of the Municipality amounted to \$94,594,664 which represents an decrease of 16% compared to prior fiscal year, as restated.
- ❑ Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$167,315,984 derived from the following sources: \$4,159,084 from charges for services; \$56,285,592 from operating grants and contributions; \$10,587,464 from capital grants and contributions obtained from other sources, and \$96,283,844 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 \$191,683,554.
- ❑ As reflected in the Statement of Activities, the current fiscal year operations contributed to an decrease in the Net Position figure by \$24,367,570.

FINANCIAL HIGHLIGHTS (CONTINUED)

- ❑ As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending deficit of \$9,965,941.
- ❑ In the fund financial statements, the governmental activities revenue decrease \$7,478,244 (or 5%); governmental activities expenditures increased by \$24,906,741 (or 12%).
- ❑ On a budgetary basis, the actual General Fund budgetary activities resulted in an unfavorable balance of \$21,158,108.
- ❑ As the end of the current fiscal year, the Municipality's General Fund accumulated deficit amounted to \$36,280,976 compared to a General Fund accumulated deficit of \$15,805,789, as restated in the prior fiscal year, as restated. The accumulated deficit increased by \$20,475,187 if compared to prior fiscal year.
- ❑ The Municipality issued bonds and notes amounting to approximately \$9,962,040 million to finance acquisition of equipment, resurfacing of streets and roads, construction of "Ciudad Deportiva", and acquisition of equipment for Ponce "Convention Center".
- ❑ On this fiscal year the Municipality did not issued operational bonds.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

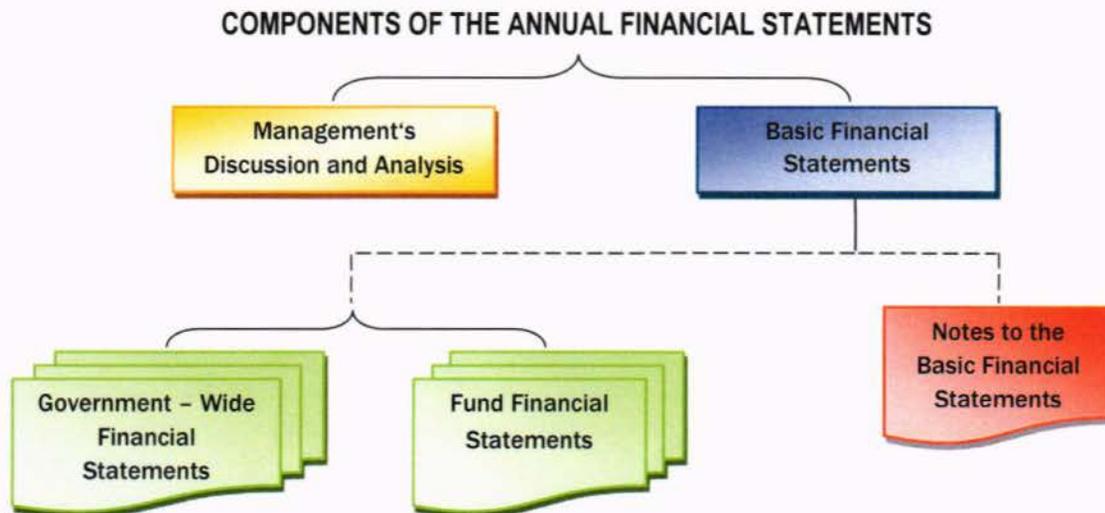
The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2012-2013. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

FINANCIAL STATEMENTS COMPONENTS

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

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

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

The government-wide financial statements can be found on pages 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 (6) 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 position

Assets

As of June 30, 2013, the Municipality's total assets amounted to \$487,090,340, a decrease of \$11,112,139 when compared with the prior year. The assets exceeded its liabilities by \$94,594,664.

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 2012-2013 include Ponce "Convention Center", construction of "Ciudad Deportiva", and resurfacing of streets and roads. The total costs of those projects will be estimated in \$9.9. million. Total capital projects still in process amount to \$44,021,334. During the current fiscal year the Municipality's total capital assets increased by \$10.74 million or 2% 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 2013, total liabilities amounted to \$392,495,676. The current liabilities increased by \$10,186,085 million and at the end of the current fiscal year, the Municipality had outstanding debt (bonds and notes) of \$203,099,000. During the current fiscal year, the Municipality's long term liabilities decreased by \$4,581,696 or two (2) percent due to payment.

Net Position

The Statement of Net Position serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Ponce**, primary government assets exceed total liabilities by \$94,594,664 at the end of 2013, as compared to prior fiscal year, as restated. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the \$17,834,469 increase reflected in the Net Position figure.

CONDENSED STATEMENTS OF NET POSITION

	2013	2012	Change	%
ASSETS				
Current and other assets	69,699,104	\$ 95,086,225	(25,387,121)	(27)%
Capital assets	417,391,236	403,116,254	14,274,982	4%
Total assets	<u>487,090,340</u>	<u>498,202,479</u>	<u>(11,112,139)</u>	(2)%
LIABILITIES				
Current and other liabilities	70,817,045	59,513,019	11,304,026	19%
Long-term debt outstanding	321,678,631	326,260,327	(4,581,696)	(1)%
Total liabilities	<u>392,495,676</u>	<u>385,773,346</u>	<u>6,722,330</u>	2%
NET POSITION:				
Invested in Capital assets, net of related debt	249,194,389	274,100,447	(24,906,058)	(9)%
Restricted for:				
Special purposes	11,360,632	19,412,857	(8,052,225)	(41)%
Capital projects	16,000,019	15,667,223	332,796	2%
Debt service	12,239,574	17,568,233	(5,328,659)	(30)%
Federal grants	3,976,556	12,380,539	(8,403,983)	(68)%
Unrestricted	(198,176,506)	(226,700,166)	28,523,660	(13)%
Total net position:	<u>94,594,664</u>	<u>\$ 112,429,133</u>	<u>(17,834,469)</u>	(16)%

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

The portion of the Municipality's net position is the negative unrestricted net position. The net position consist of the excess of assets over related liabilities that are neither externally legally restricted, neither invested in capital assets. These negative net position 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 position 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 position, 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 Position
(In Millions)**



FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Changes in Net Position

The Municipality's net position decreased by \$24,367,570. Approximately 53% of the Municipality's total revenue came from taxes, while 42% resulted from grants and contributions, including federal aid. Also, Charges for Services provided 2%. The Municipality's largest expenses included items such as general government, health and welfare services and public works. The following table includes the composition of revenues and expenses for the fiscal years ended on June 30, 2013 and 2012.

CONDENSED STATEMENTS OF ACTIVITIES

	2013	2012	Change	%
PROGRAM REVENUES:				
Charges for services	4,159,084	\$ 2,490,796	1,668,288	67%
Operating grants and contributions	56,285,592	54,626,212	1,659,380	3%
Capital grants and contributions	10,587,464	7,522,579	3,064,885	41%
GENERAL REVENUES:				
Property taxes	44,668,949	45,945,388	(1,276,439)	(3)%
Municipal license tax	16,850,925	20,613,936	(3,763,011)	(18)%
Sales tax	21,336,584	15,965,827	5,370,757	34%
Licenses, permits and other local taxes	7,344,746	6,376,789	967,957	15%
Grants and contributions not restricted to specific purpose	4,159,084	17,691,162	(13,532,078)	(76)%
Interest	1,520,404	1,217,919	302,485	25%
Others	403,152	2,803,580	(2,400,428)	(86)%
Total revenues	<u>167,315,984</u>	<u>\$ 175,254,188</u>	<u>(7,938,204)</u>	<u>(5)%</u>
EXPENSES:				
General government	59,539,101	64,085,711	(4,546,610)	(7)%
Public safety	15,089,308	13,642,595	1,446,713	11%
Public Works	21,746,920	8,904,778	12,842,142	144%
Culture and recreation	8,422,279	3,069,330	5,352,949	174%
Health and welfare	29,064,649	17,122,642	11,942,007	70%
Urban development	6,331,680	938,850	5,392,830	574%
Claims and judgments		-	-	
Education	10,840,080	16,124,487	(5,284,407)	(33)%
Training and employment	2,997,642	3,487,625	(489,983)	(14)%
Capital outlays:				
Special Communities	1,749,575	2,581,543	(831,968)	(32)%
Projects	27,501,299	16,659,796	10,841,503	65%
Interest	8,401,021	9,153,320	(752,299)	(8)%
Total expenses	<u>191,683,654</u>	<u>\$155,770,677</u>	<u>35,912,977</u>	<u>23%</u>
Change in net position	(24,367,570)	19,483,511	(43,851,081)	(225)%
Net position, beginning of year (as restated)	118,962,234	99,478,723	21,190,919	20%
Net position, end of year	<u>94,594,664</u>	<u>\$118,962,234</u>	<u>(24,367,570)</u>	<u>(20)%</u>

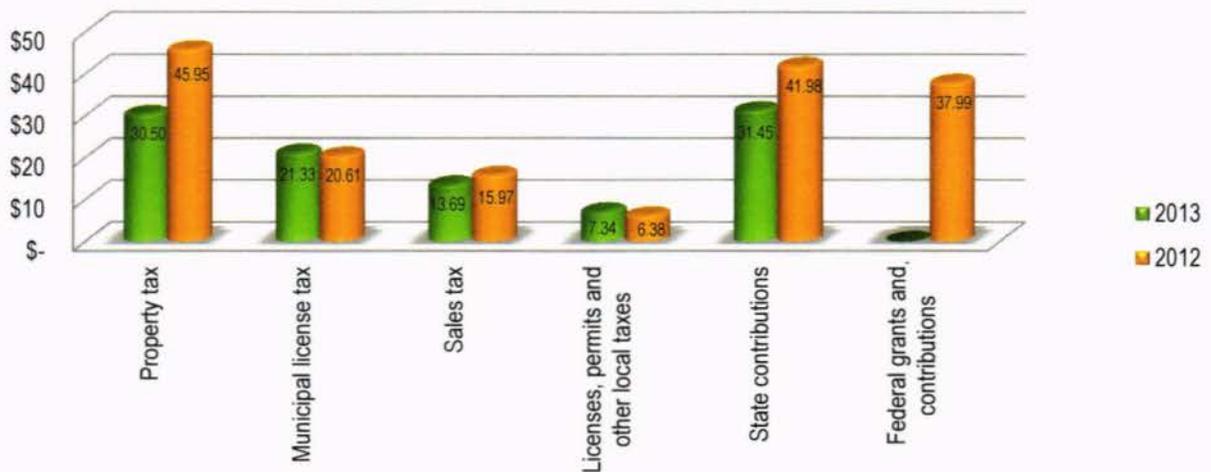
FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

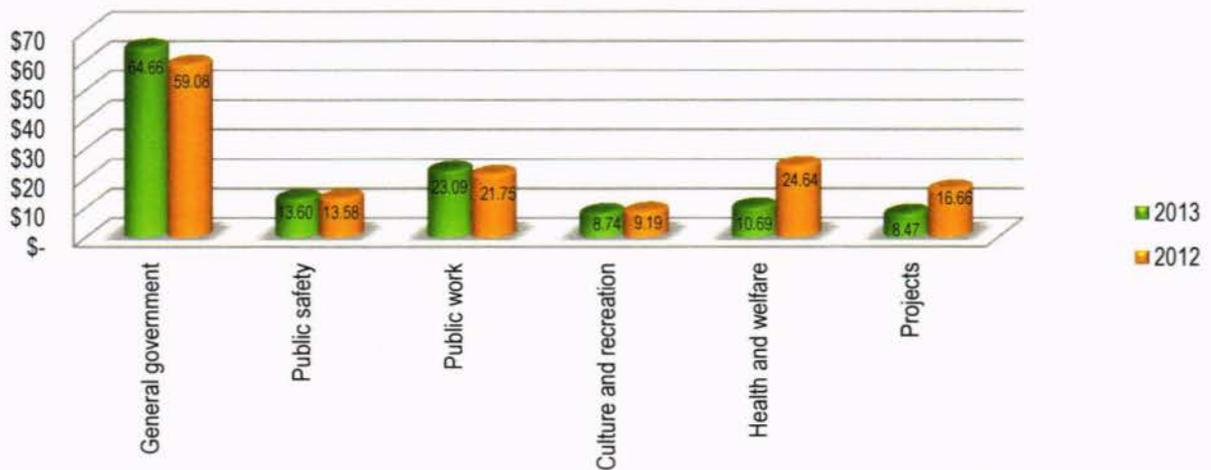
The focus of the Municipality's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of 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 expenditures compared with prior fiscal year.

Governmental Revenues (In Millions)



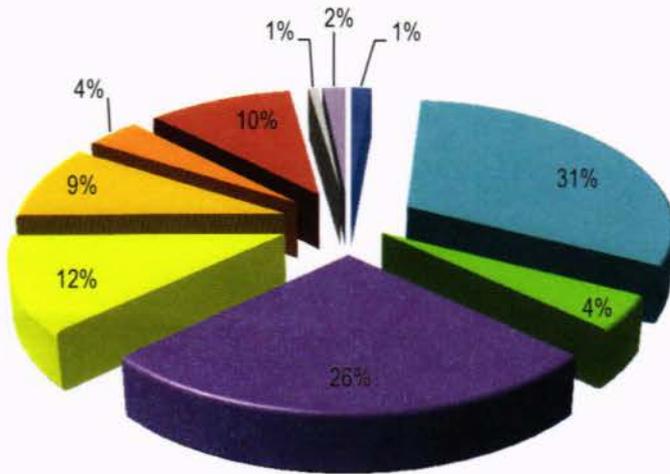
Governmental Expenditures (In Millions)



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

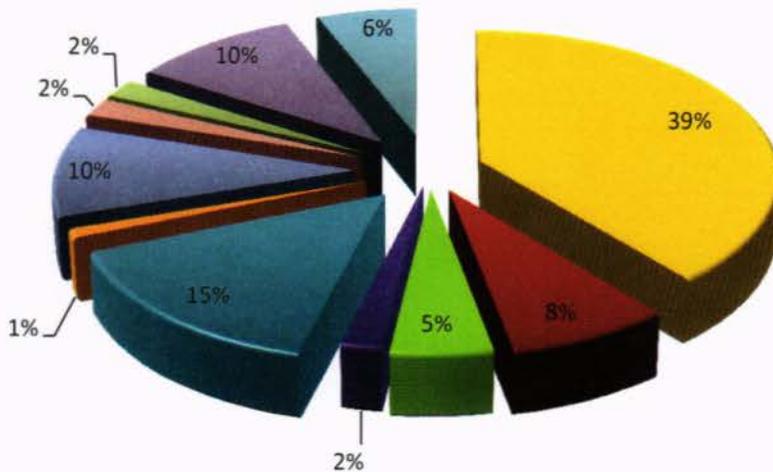
The following charts summarize the Municipality's revenues and expenses for the fiscal year ended June 30, 2013.

Revenues 2013



- 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 2013



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

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 deficit of \$9,965,941, a decrease of \$37.10 million in comparison with the prior year, as restated. The combined fund balances include restricted fund balances amounting to \$43.48 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 (\$22.07 million); 2) to pay for capital projects (\$6.85 million) and 3) to pay for debt services (\$14.56 million). There are committed fund balances amounting to \$95,373 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 \$53.54 million was reported in the governmental funds at June 30, 2013.

Governmental funds include the General Fund, which is the main operating fund of the Municipality. As of June 30, 2013, the General Fund has an accumulated deficit of \$36,280,976 compared with prior fiscal year, as restated, of \$18,480,789.

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, 2013 and 2012 amounted to \$14.56 million and \$17.56 million, respectively. The increases of \$3 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 2012-2013, the Municipal Legislature approved an original budget for the General Fund of \$112.1 million. During the year, there was no amendment to include any changes in revenues that were identified during the course of the fiscal year. The budgetary comparison reflected a deficiency of \$21.16 million of total current expenses over operating revenues.

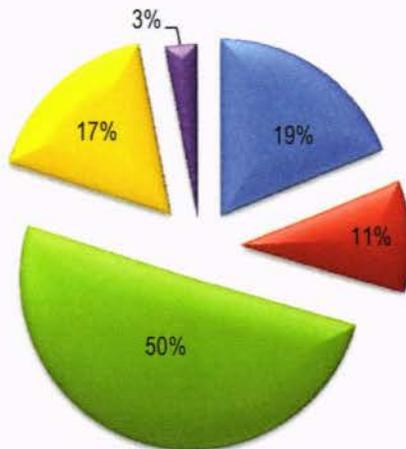
CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2013, amounted to \$527,605,814 which upon deduction of accumulated depreciation in the amount of \$110,214,578 produced a net book value attributable to capital assets in the amount of \$417,391,236. 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 two percent (2%) of net book value. Depreciation charges for the year totaled \$9,653,786.

The following chart summarizes the Municipality's capital assets for the fiscal years ended June 30, 2013 and 2012.

Capital Assets (Net of accumulated depreciation)		
	Governmental Activities	
	2013	2012
Land and improvements	\$79,052,059	\$ 79,770,461
Construction in progress	44,021,334	88,963,633
Buildings and buildings improvements	210,365,275	154,772,405
Infrastructure and infrastructure improvements	71,357,567	66,330,928
Machinery and equipment	12,595,001	13,278,827
Total	\$417,391,236	\$ 403,116,254



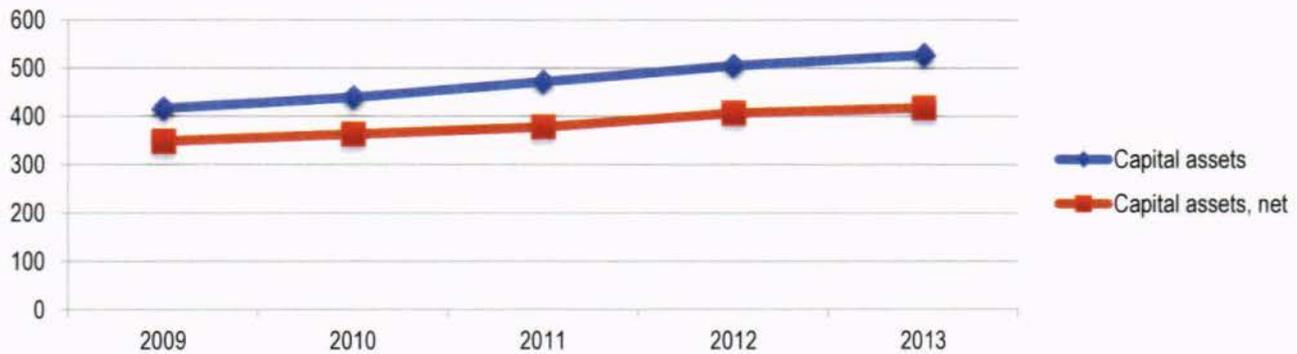
Capital Assets 2013

- 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 \$59.93 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.

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)

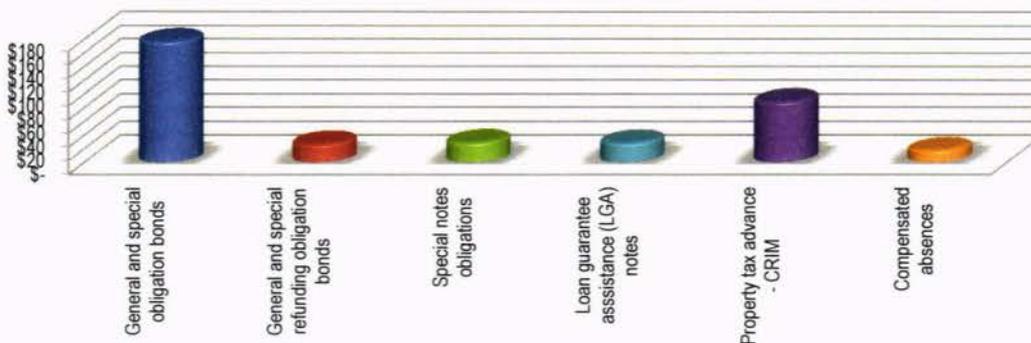
In the particular case of the Municipality of Ponce, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

On June 30, 2013, the Municipality had \$321.67 million in bonds, notes and other long-term debts outstanding, as compared to \$326.26 million in prior year, a decrease of \$4.59 million, as shown in table below. The Municipality paid \$10.43 million in principal and \$3.42 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 \$9.62 million. Under current state statutes, the Municipality required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property tax restricted for debt services.

The following chart summarizes the Municipality's capital assets for the fiscal years ended June 30, 2012 and 2013.

Long Term Debt		
	Governmental Activities	
	2013	2012
General and special obligation	\$176,369,000	\$ 180,840,000
Loan guarantee assistance notes	26,730,000	28,362,000
Non – revolving Line of Credit	7,671,847	2,044,807
Advances from CRIM	82,780,186	88,647,435
Other obligations	25,954,101	24,078,193
Interest due for sold account	2,173,497	2,287,892
Total	\$321,678,631	\$ 326,260,327

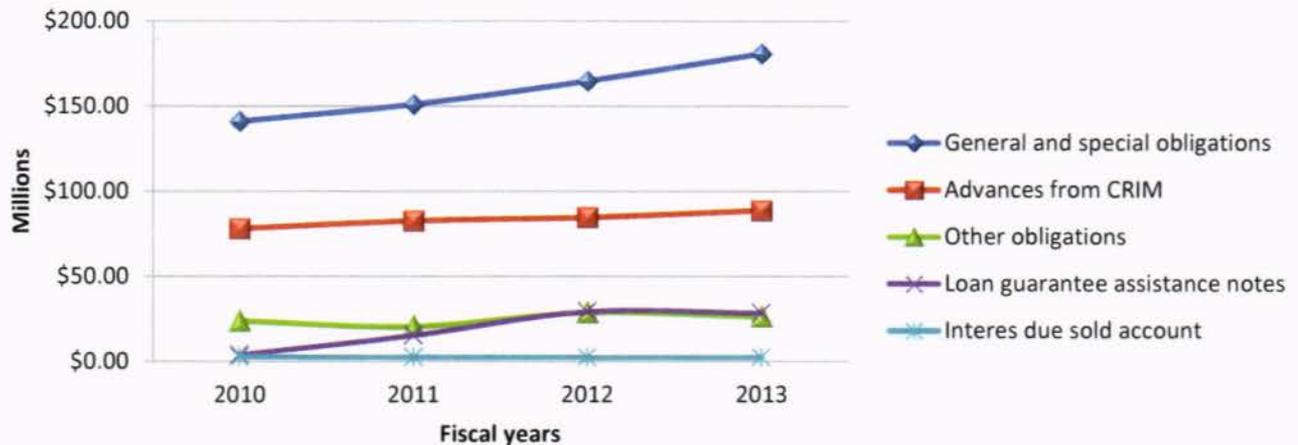
Long Term Debt 2013



CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration (continued)

The following chart provides information about the behavior of the Municipal'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.

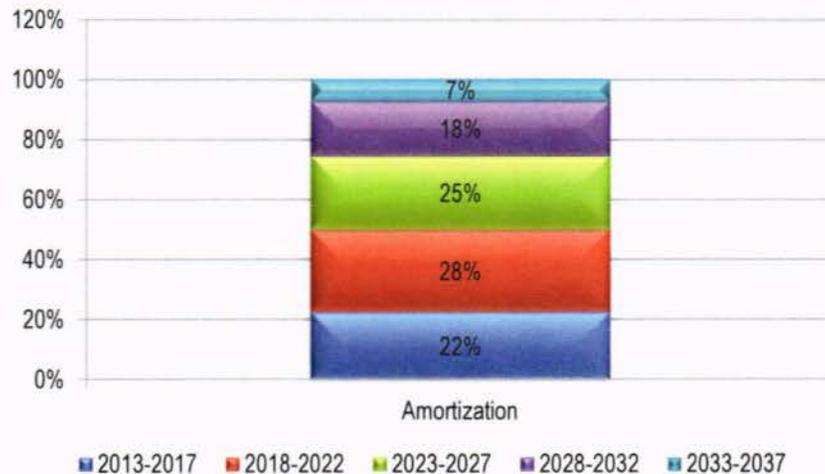
At June 30, 2013, the Municipality had \$180.84 million of general obligation bonds outstanding. The following chart indicates the principal amortization of the Municipality's general obligation bonds in five-year increments.

<u>Range of Years</u>	<u>Principal Amortization</u>
2014-2018	\$ 38,528,000
2019-2023	47,198,000
2024-2028	42,197,000
2029-2033	30,759,000
2034-2038	12,653,000
Total	\$ 171,335,000

CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration (continued)

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



The Municipality has various outstanding notes payable amounting to \$32.60 million at June 30, 2013. 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

Port of Ponce Authority

Pursuant to Act 240 -2011, as amended, the Municipality of Ponce is currently in ongoing negotiations with the Port of Ponce Authority (PPA) as to the terms and conditions whereby certain municipal property under lease or sub-concession for the development and operation of the Port of the Americas. A preliminary Lease Agreement was executed by the parties on February 14, 2014, with provisional terms until a final agreement is reached.

Act. No. 18 of 2014

On January 24, 2014, was signed the Act No. 18 of 2014, to create the "Law of Municipal Administration Fund", to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of debt, whose repayment source are the funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in this Act, amend paragraph (b) of Section 4020.01, amend paragraph (b) of Section 4020.02, and amend paragraph (a) and to repeal paragraph (e) of Section 6080.14 of the Act No. 1-2011, as amend, known as the "Internal Revenue Code for a New Puerto Rico", in order to restructure the sales and use tax so that the tax rate is six (6) percent state level and one (1) percent at the municipal level.

Act. No 19 of 2014

On January, 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 19 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico known as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with the power to issue and/or use other mechanisms to pay or refinance the debt incurred by the municipalities, whose payment of principal and interest is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico".

Next year's budget

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2013-2014.

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Statement of Net Position
June 30, 2013

	Component Units	
	Governmental Activities	Patronato
Assets		
Cash (Note 2)	\$ 1,579,118	\$ 312,824
Accounts receivable net (Note 3):		
Municipal license tax (Notes 3)	720,425	
Sales tax (Note 9)	812,131	
Others	5,201,852	2,374
Inventories		34,703
Prepaid Insurance		10,000
Due from central government (Note 4)	2,567,465	
Due from federal government (Note 4)	9,572,854	
Restricted assets:		
Cash and cash equivalents (Note 2)	6,146,827	
Cash and cash equivalents with fiscal agent (Note 2)	43,098,432	
Capital assets(Notes 6):		
Land, improvements and construction in progress		
Non-depreciable	97,012,191	
Buildings, infrastructure and other capital assets, net of depreciation	320,379,045	313,315
Total capital assets	<u>417,391,236</u>	<u>313,315</u>
Total assets	<u>487,090,340</u>	<u>673,216</u>
Liabilities		
Accounts payable and accrued liabilities (Note 7)	36,825,604	15,018
Due to governmental entities (Note 10)	9,386,762	
Deferred revenues (Note 12):		
Municipal license tax	15,852,248	
Federal grant revenues	5,311,473	
Other	15,924	75,453
Accrued expenses		59,320
Accrued interest	3,425,034	
Noncurrent liabilities (Note 13):		
Due within one year	15,863,815	2,364
Due in more than one year	<u>305,814,816</u>	<u>3,226</u>
Total liabilities	<u>392,495,676</u>	<u>155,381</u>
Net Position		
Invested in capital assets, net of related debt	249,194,389	
Restricted for:		
Special purpose	11,360,632	
Capital projects	16,000,019	
Debt service	12,239,574	
Federal grants	3,976,556	
Unrestricted (deficit) net position	<u>(198,176,506)</u>	<u>517,835</u>
Total net position	<u>\$ 94,594,664</u>	<u>\$ 517,835</u>

The notes to the financial statements are an integral part of this statement.

**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Statement of Activities
For the Year Ended June 30, 2013**

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
Primary Government						
General government	\$ 59,539,101	\$ 348,700	\$ -		\$ (59,190,401)	\$ -
Public safety	15,089,308	1,862,533	-		(13,226,775)	
Public works	21,746,920		13,270,521	5,160,044	(3,316,355)	
Culture and recreation	8,422,279	461,341	7,480,288		(480,650)	
Health and welfare	29,064,649		16,310,916		(12,753,733)	
Urban development	6,331,680	1,486,510			(4,845,170)	
Education	10,840,080		6,891,490		(3,948,590)	
Training and employment	2,997,642		2,426,366		(571,276)	
Capital outlays:						
Special communities	1,749,575		1,370,072		(379,503)	
Projects	27,501,299		8,535,939	5,427,420	(13,537,940)	
Interest	8,401,021				(8,401,021)	
Total governmental activities	\$ 191,683,554	\$ 4,159,084	\$ 56,285,592	\$ 10,587,464	(120,651,414)	-
Component units						
"Patronato"						1,221,325
Total Component Units	\$ -	\$ -	\$ -	\$ -	-	1,221,325
General revenues:						
Property taxes (Note 8)					44,668,949	
Municipal license tax (Note 3)					16,850,925	
Sales tax (Note 9)					21,336,584	
Licenses, permits and other local taxes					7,344,746	
Grants and contribution not restricted for specific purpose					4,159,084	457,893
Interest					1,520,404	830
Others					403,152	767,197
Total general revenue					96,283,844	1,225,920
Change in net position					(24,367,570)	4,595
Net position, beginning of year, as previously reported					112,429,133	513,240
Prior period adjustments (Note 20)					6,533,101	
Net position, beginning of year, as restated					118,962,234	513,240
Net position, end of year					\$ 94,594,664	\$ 517,835

**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Balance Sheet
Governmental Funds
June 30, 2013**

	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
Assets								
Cash (Note 2)	\$ 1,558,429						\$ 20,689	\$ 1,579,118
Accounts receivable net (Note 3):								
Municipal licenses tax	720,425							720,425
Sales tax	812,131							812,131
Others	753,834	2,328,153		527,544		1,517,033	75,288	5,201,852
Due from central government (Note 4)	1,697,644		451,795				418,026	2,567,465
Due from federal government (Note 4)				578,960	1,674,242	4,903,973	2,415,679	9,572,854
Due from other funds (Note 5)	655,770			61,278	6,037	533,855	1,166,396	2,423,336
Restricted cash:								
Cash and cash equivalents (Note 2)	1,967,451		34,658		199,443	2,894,361	1,488,851	6,584,764
Cash and cash equivalents with fiscal agent (Note 2)	5,383,191	10,598,517	26,353,140				325,647	42,660,495
Total assets	\$ 13,548,875	\$ 12,926,670	\$ 26,839,593	\$ 1,167,782	\$ 1,879,722	\$ 9,849,222	\$ 5,910,576	72,122,440

**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Balance Sheet (Continued)
Governmental Funds
June 30, 2013**

	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
Liabilities and Fund Balances								
Liabilities :								
Accounts payable and accrued liabilities (Note 7)	\$ 23,354,576	\$ 6,070,287		\$ 355,066	\$ 107,027	\$ 4,962,811	\$ 1,975,837	\$ 36,825,604
Due to other governmental entities (Note 10)	9,385,670					1,092		9,386,762
Due to other funds (Note 5)	1,226,368			107,241		514,752	574,975	2,423,336
General obligations:								
Bonds			8,848,000					8,848,000
Accrued interest			3,425,034					3,425,034
Deferred revenues (Note 12):								
Municipal license tax	15,852,248							15,852,248
Federal government				450,865	1,668,849	747,532	2,444,227	5,311,473
Others	10,989					4,935		15,924
Total liabilities	49,829,851	6,070,287	12,273,034	913,172	1,775,876	6,231,122	4,995,039	82,088,381
Fund (deficit) balances:								
Reserved for:								
Restricted	17,227,726	6,856,383	14,566,559	254,610	103,846	3,618,100	854,184	43,481,408
Committed	34,020						61,353	95,373
Unassigned	(53,542,722)							(53,542,722)
Total fund balances (deficit)	(36,280,976)	6,856,383	14,566,559	254,610	103,846	3,618,100	915,537	(9,965,941)
Total liabilities and fund balances	\$ 13,548,875	\$ 12,926,670	\$ 26,839,593	\$ 1,167,782	\$ 1,879,722	\$ 9,849,222	\$ 5,910,576	\$ 72,122,440

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, 2013

	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
Revenues								
Property taxes (Note 8)	\$ 30,502,895		\$ 14,166,054					\$ 44,668,949
Municipal license taxes (Note 3)	21,336,584							21,336,584
Sales tax (Note 9)	13,690,051		3,160,874					16,850,925
Royalties and others	1,486,510							1,486,510
Licenses, permits and other local taxes	7,344,746							7,344,746
Charges for services and rents	1,862,533						348,700	2,211,233
Fines and forfeitures	461,341							461,341
Interest	160,896	1,267,542	22,038			35,572	34,356	1,520,404
Intergovernmental revenue (Note 11):								
State Contributions	31,455,964						856,673	32,312,637
Federal grants and contributions				13,777,871	2,426,366	16,310,916	3,051,263	35,566,416
Others	2,261,597			891,490		388,876	14,276	3,556,239
Total revenues	110,563,117	1,267,542	17,348,966	14,669,361	2,426,366	16,735,364	4,305,268	167,315,984
Expenditures								
Current:								
General government	64,661,107						41,137	64,702,244
Public safety	13,602,875						1,701,345	15,304,220
Public works	23,097,410						315,937	23,413,347
Culture and recreation	8,742,066						2,581	8,744,647
Health and welfare	10,693,663			2,448,216		12,226,732	1,411,027	26,779,638
Urban development	1,172,789					5,718,024	515,425	7,406,238
Education	2,343,853			12,857,238			18,525	15,219,616
Training and employment	314,276				2,625,674		57,692	2,997,642
Capital outlays:								
Special Communities	2,282,696						4,158	2,286,854
Projects	8,473,931	19,229,143					3,559,178	31,262,252
Debt service:								
Principal			11,352,000					11,352,000
Interest			8,401,021					8,401,021
Total expenditures	135,384,666	19,229,143	19,753,021	15,305,454	2,625,674	17,944,756	7,627,005	217,869,719

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, 2013

	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	(24,821,549)	(17,961,601)	(2,404,055)	(636,093)	(199,308)	(1,209,392)	(3,321,737)	(50,553,735)
Other financing sources (uses)								
Transfers in	11,998,241		4,067,685	9,259	269,714	250,973		16,595,872
Transfers out	(7,651,879)	(794,129)	(4,665,304)			(3,158,179)	(326,381)	(16,595,872)
Long-term debt issued		9,962,040						9,962,040
Bond issuance costs		(17,150)						(17,150)
Total other financing sources (uses)	4,346,362	9,150,761	(597,619)	9,259	269,714	(2,907,206)	(326,381)	9,944,890
Excess (deficiency) of revenues over expenditures and other financing sources	(20,475,187)	(8,810,840)	(3,001,674)	(626,834)	70,406	(4,116,598)	(3,648,118)	(40,608,845)
Fund balance (deficit), beginning as restated	(15,805,789)	15,667,223	17,568,233	881,444	33,440	7,734,698	4,563,655	30,642,904
Fund balance (deficit), ending	\$ (36,280,976)	\$ 6,856,383	\$ 14,566,559	\$ 254,610	\$ 103,846	\$ 3,618,100	\$ 915,537	\$ (9,965,941)

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**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
For the Year Ended June 30, 2013**

Total Fund Balances - Governmental Funds **\$ (9,965,941)**

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

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

Non Depreciable Capital Assets	\$ 97,012,191	
Depreciable Capital Assets	430,593,623	
Accumulated Depreciation	<u>(110,214,578)</u>	
Total Capital Assets		417,391,236

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 Financial Statement was included as part of Non-current liabilities	8,848,000
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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	203,099,000	
Non - Revolving Line of Credit	7,671,847	
Property tax advances-CRIM	82,780,186	
Property tax debt	1,526,108	
US Department of Health and Human Services - Questioned Costs 2005-2006 (Payment Plan)	290,081	
P.R. Aqueduct & Sewer Authority	2,675,000	
Interest due for accounts sold-CRIM	2,173,497	
Puerto Rico Building Authority	3,652,129	
Claims and judgments	1,320,676	
Compensated Absences	<u>16,490,107</u>	
Total Long-Term Liabilities		<u>(321,678,631)</u>

Total Net Position of governmental activities **\$ 94,594,664**

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, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ (40,608,845)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, 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.	20,510,739
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds	(9,653,786)
Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Position, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Change in Net Position.	(111,274)
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.	6,103,000
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.	914,000
Long-term claims and judgments are reported in the Governmental-Wide Statement of Activities and Changes in Net Position, 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.	(248,305)
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 Position. The following amount represent the change in long-term property tax advance debt from prior year.	2,541,381
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.	114,395
Repayment of long term Puerto Rico Building Authority (PRBA) is an expenditure in Governmental Funds, but the repayment reduces long term PRBA in the Government-Wide Statement of Net Position. The following amount represent the change in long term PRBA debt from prior year.	60,000
Repayment of long term Puerto Rico Aqueduct & Sewer Authority (ASA) is an expenditure in Governmental Funds, but the repayment reduces long term ASA in the Government-Wide Statement of Net Position. The following amount represent the change in long term ASA debt from prior year.	(2,675,000)
Repayment of US Department of Health and Human Services - Questioned Costs 2005-2006 (Payment Plan)	137,212
Repayment of US Department of Housing and Urban Development - Questioned Costs 2003-2004 (Payment Plan)	266,976
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds. (Non-revolving Line of Credit)	(5,627,040)
Repayment of long term Property tax Advances -CRIM debt is an expenditure in Governmental Funds, but the repayment reduces long term CRIM debt in the Government-Wide Statement of Net Position. This is the amount paid in the current period.	1,799,760
Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Position, 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.	2,109,217
Change in Net Position of Governmental Activities	\$ (24,367,570)

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 provisions of the GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, an amendment of Statements No. 14 and 34, were considered in the evaluation of the potential component units. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government under certain circumstances.

The GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

In current year, the Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* establishing a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Municipality's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

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

A. Component Units

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GASB Statement No. 14, as amended. The basic, but not the only criterion for including a potential component unit within the reporting entity is if a primary government is financially accountable for the entity. Financial accountability exists if the primary governmental 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. Based on the above criteria, the Municipality does not have component units to include within its reporting entity.

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

The Municipality has two component units as detailed below. The "Port of Ponce" is not included in the financial statements.

- **Port of Ponce** was formed as a result of Ordinance No. 258 (Series 1911), dated November 20, 1911, and enacted by the Executive Council of Puerto Rico, which granted the Municipality authority to construct, maintain and operate a pier, on the shore of the Ponce Harbor. The operations of the port facilities are financed principally through charges to users.
- **Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D. ("Patronato")** was incorporated on July 28, 1995, as special nonprofit corporation for conservation, protection and development of a museum on Castillo Serralles and Cruceta El Vigía de Ponce, which are Municipality's buildings. In February 2002, the Municipality signed a proxy contract with Patronato for custody of these municipal properties for which 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 prepared on September 20, 2012.

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 position* 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 position presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net position. Net position 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.

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

- 2) **Restricted net position** – 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 position** – these consist of net position, which do not meet the definition of the two preceding categories. Unrestricted net position often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenue.

Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

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.

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

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 page 29.

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.

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

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.

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 position. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts. Principal and interest due on July 1 of the following fiscal year are accounted for as a fund liability, if resources are available as of June 30 for its payment.

Health and Human Services Grants ("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

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

"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".

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 Position

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.

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

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.
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 position.
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 position.

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, 2013.

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, 2013, 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. **Unearned revenues-** Unearned 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. Unearned 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.

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.

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

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, 2013.

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 Position** – has been reported pursuant to the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Net Position represents the difference between all assets plus deferred outflows of resources and all liabilities plus deferred inflows of resources. The Net Position consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.), or net position 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 position 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 position. 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 position is segregated into three categories:

- a. *Net Investment in capital assets*: Represent the component of the net position that consist of capital asset balances net of accumulated depreciation and amortization reduced by the 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 position*: Represents the component of the net position that is 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 position*: Represents the component of the net position that do not meet the definition of net position 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 of the Statement of Net Position.

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, 2013 amounted to approximately \$2.78 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. The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation.

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

(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, 2013 amounted to \$2.2 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.

2. **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.

3. **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.

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.

4. **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.

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

5. **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.
6. **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.
7. **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.
8. **Future adoption of accounting pronouncements-** The Governmental Accounting Standards Board has issued the following statements that have effective dates after June 30, 2013:
 - a. GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements (GASB 60). The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement is effective for periods beginning after December 15, 2011.
 - b. GASB Statement No. 61, The Financial Reporting Entity: Omnibus – an amended 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 requirement of Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments, were amended to better meet user need 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.
 - c. GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements; 1) Financial Accounting Standard Board (FASB) Statements and interpretations, 2) Accounting Principles Boards Opinions, 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants'(AICPA) Committee on Accounting Procedures. This Statement is effective for periods beginning after

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

- d. GASB Statement No. 63, Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.
- e. GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determinations of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.
- f. GASB Statement No. 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.
- g. GASB Statement No. 67, Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25. The requirements of this statement are effective for periods beginning after June 15, 2013.
- h. GASB Statement No. 68 Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27. The requirements of this statement are effective for periods beginning after June 15, 2014.

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

Post fiscal year 2012-2013

- a. GASB-67 *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25* is effective for periods beginning after June 15, 2013.
- b. GASB-68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* is effective for periods beginning after June 15, 2014.

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, 2013.

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, 2013, (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, 2013, 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, 2013, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the

2. CASH AND CASH EQUIVALENTS (continued)

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, 2013. Therefore, the Municipality's management has concluded that at June 30, 2013 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, 2013.

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 \$3,525,880 in the General Fund, \$34,658 in the Debt Service Fund, \$34,658 in the Health and Human Services Grants, \$199,443 in the Workforce Investments Act Grants, \$2,894,361 in the Housing & Urban Development Grants and \$1,488,851 on Others Funds. All balances are fully collateralized at June 30, 2013.

The deposits at GDB of \$5,383,191 in the General Fund, \$10,598,517 in the Capital Projects Fund, \$26,353,140 in the Debt Service Fund and \$325,647 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, 2013, the tax rates were as follows:

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

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2013, net of allowance for uncollectible accounts.

3. RECEIVABLES (continued)

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as unearned revenues. Accounts receivable – net of allowance for uncollectible accounts as of June 30, 2013, consists of the following:

<u>Description</u>	<u>Gross Amount</u>	<u>Allowance</u>	<u>Net Amount</u>
Municipal license tax	\$ 800,472	\$ 80,047	\$ 720,425

B. *Sales tax* – sales tax receivable represents filed sales tax returns that were uncollected as of June 30, 2013, as described in Note 9.

<u>Description</u>	<u>Gross Amount</u>	<u>Allowance</u>	<u>Net Amount</u>
Sales tax	\$ 902,367	\$ 90,235	\$ 812,131

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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 Economic Development and Commerce of Puerto Rico	\$ 806,273
Department of Justice "Ponce en Marcha" Puerto Rico – CRIM	740,287
Department of State Homeland Security	242,094
Department of Justice	54,492
Emergency Management Agency - 911	159,269
Governmental Development Bank	125,000
Department of Education	209,701
Department of Labor "Ley 52"	11,584
Family Department	130,869
Others	54,447
	<u>33,449</u>
Total due from central government	<u>\$ 2,567,465</u>

<u>Federal governments:</u>	<u>Amount</u>
HUD – CDBG	\$ 4,857,758
Workforce Investment Act Grant	1,674,242
Homeland Security	1,425,905
Department of Justice "ARRA"	605,045
HHS - Head Start	464,336
HHS - Ryan White	312,622
Bulletproof Best Partnership	85,829
Child and Adult Care Food Program	86,371
HUD - Emergency Shelter	30,469
HUD – HOME	15,746
El Tuque Satellite Center	<u>14,531</u>
Total due from federal government	<u>\$ 9,572,854</u>

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5. INTERFUND TRANSACTIONS

Due to and Due from represents short-term borrowing between funds and regular services and supplies provided

a. Due from other funds

<u>General Fund</u>	<u>Amount</u>	<u>Purpose</u>
HUD Funds	\$ 456,405	Reimbursable expenditures
HHS Funds	176,148	Reimbursable expenditures
Others Funds	<u>23,217</u>	Reimbursable expenditures
Sub-total general fund	\$ 665,770	
<u>HHS grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 61,278	Reimbursable expenditures
Sub-Total HHS grants	\$ 61,278	
<u>WIA grant</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 6,037	Reimbursable expenditures
Sub-total WIA grant	\$ 6,037	
<u>HUD grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 533,855	Reimbursable expenditures
Sub-total HUD grants	\$ 533,855	
<u>Others</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 1,166,396	Reimbursable expenditures
Sub-total Others	\$ 1,166,396	
Total	\$ 2,423,336	

b. Due to other funds

<u>General Fund</u>	<u>Amount</u>	<u>Purpose</u>
Other Funds	\$ 672,505	Reimbursable expenditures
HUD Funds	409,955	Reimbursable expenditures
HHS Funds	142,494	Reimbursable expenditures
WIA Fund	<u>1,414</u>	Reimbursable expenditures
Sub-total due to General Fund	\$ 1,226,368	
<u>HHS Grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 107,241	Reimbursable expenditures
Sub-total HHS funds	\$ 107,241	

5. INTERFUND TRANSACTIONS (continued)

<u>HUD grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 514,752	Reimbursable expenditures
Sub-total HUD grants	\$ 514,752	
<u>Others Grants</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 574,975	Reimbursable expenditures
Sub-total Other Fund	\$ 574,975	
Total	\$ 2,423,336	

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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 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2012 (as restated)	Additions	Reclassifications/ Retirements	Balance June 30, 2013
Capital asset, not being depreciated:				
Construction in progress	\$ 92,493,036	\$ 18,608,400	\$ (67,080,102)	\$ 44,021,334
Land	52,990,857			52,990,857
Total capital assets not being depreciated	145,483,893	18,608,400	(67,080,102)	97,012,191
Capital assets, being depreciated:				
Buildings and building improvements	195,043,937	60,670,079		255,714,016
Land improvements /Site improvements	31,003,412			31,003,412
Infrastructure and infrastructure improvements	81,007,415	6,661,679		87,669,094
Machinery and equipment	55,669,260	1,650,583	(1,112,742)	56,207,101
Total capital assets being depreciated	362,724,024	68,982,341	(1,112,742)	430,593,623
Less accumulated depreciation for:				
Buildings and building improvements	(40,271,532)	(5,077,209)		(45,348,741)
Land improvements /Site improvements	(4,223,808)	(718,402)		(4,942,210)
Infrastructure and infrastructure improvements	(14,676,487)	(1,635,040)		(16,311,527)
Machinery and equipment	(42,390,433)	(2,223,135)	1,001,468	(43,612,100)
Total accumulated depreciation	(101,562,260)	(9,653,786)	1,001,468	(110,214,578)
Total capital assets being depreciated, net	261,161,764	59,328,555	(111,274)	320,379,045
Governmental activities capital assets, net	\$ 406,645,657	\$ 77,936,955	\$ (67,191,376)	\$ 417,391,236

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	\$ 1,456,409
Public safety	425,149
Public works	2,698,543
Health and welfare	299,001
Culture and recreation	2,257,016
Urban development	245,144
Training and employment	131,446
Education	<u>209,398</u>
Total depreciation expense-governmental activities	<u>\$ 7,722,106</u>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013 are summarized as follows:

<u>Funds</u>	<u>Accounts Payable</u>	<u>Accrued Liabilities</u>	<u>Total</u>
General fund	\$ 22,939,583	\$ 414,993	\$ 23,354,576
Capital projects fund	6,070,287		6,070,287
HHS program	310,420	44,646	355,066
WIA program	107,027		107,027
HUD program	4,386,861	575,950	4,962,811
Other governmental funds	1,837,528	138,309	1,975,837
Total on balance sheet	<u>\$ 35,651,706</u>	<u>\$ 1,173,898</u>	<u>\$ 36,825,604</u>
Plus: Obligation paid with CAE funds			8,848,000
Loan guarantee assistants obligation			3,425,034
Total on statement of net position			<u>\$ 49,098,638</u>

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.

8. PROPERTY TAXES (continued)

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 ensuring fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections.

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

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. Total advances from CRIM as of June 30, 2013, presented as noncurrent liabilities in the government-

8. PROPERTY TAXES (continued)

wide financial statements amounted to approximately \$82.7 million pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2013. 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 \$16,850,925 during the year ended June 30, 2013.

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 Electric Power Authority	\$ 2,624,171
Retirement System Administration	3,248,815
Puerto Rico Aqueduct and Sewer Authority	2,374,657
Commonwealth of Puerto Rico Employee Association	104,008
State Insurance Fund Corporation	1,091
Puerto Rico Buildings Authority	581,568
Department of the Family "ASUME"	31,792
Department of Labor	369,860
General Services Administration	6,944
Retirement System Administration	34,299
Others	<u>9,557</u>
Total	<u>\$ 9,386,762</u>

11. INTERGOVERNMENTAL REVENUES

Following is detail of intergovernmental revenues:

<u>State agencies:</u>	<u>Amount</u>
Puerto Rico Electric Power Authority	\$ 15,278,463
Puerto Rico Department of Natural Resources	6,706,610
Subsidy and Lottery of Puerto Rico – CRIM	2,739,153
Reimbursement from the Commonwealth of Puerto Rico of Christmas bonus expenditures	1,502,473
School Infrastructure Development	298,277
Department of Labor	169,776
Puerto Rico Legislative Joint Resolutions	3,017,551
Department – Land Administration	1,081,273
Infrastructure Financing Authority (AFI)	211,968
Department of Transportation and Public Work	1,031,871
Others	<u>275,222</u>
Total governmental funds	<u>\$ 32,312,637</u>

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11. INTERGOVERNMENTAL REVENUES

<u>Federal agencies:</u>	<u>Amount</u>
HHS – Head Start & Early	\$ 12,633,464
HUD – Section 8 Choice Voucher	9,353,911
HUD – CDBG – Entitlement	5,194,353
Department of Labor – Workforce Investment Act	2,426,366
HHS – Ryan White	1,673,333
HUD – Emergency Shelter	430,166
Department of Agriculture – USDA	955,537
Department of Justice – Homeland Security	325,722
Department of Justice – Anti Gang Initiative	731,025
FEMA	260,098
HUD – Home Program	1,402,368
El Tuque Satellite Center	15,644
HUD – Municipal Bank (CDBG loans)	57,423
Others	<u>107,006</u>
Total governmental funds	<u>\$ 35,566,416</u>

12. UNEARNED REVENUES

- A. Municipal License Tax- The unearned revenues of \$15,852,248 in the general fund relates to municipal license tax collected in fiscal year 2012-13 that will be earned in fiscal year 2013-14.
- B. Federal Grants- The unearned revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Unearned revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Homeland Security	\$ 2,156,662
Federal Emergency Management Agency (FEMA)	267,362
Department of Labor – Workforce Investment Act	1,668,849
HHS - Head Start	450,865
HUD – Home Program	709,590
Department of Justice – Administration Division	5,226
HUD – Emergency Shelter	37,104
Others	<u>15,815</u>
Total	<u>\$ 5,311,473</u>

13. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013, was as follows:

Description	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 114,044,000	\$ 2,120,000	\$ (5,234,000)	\$ 110,930,000	\$ 5,718,000
General refunding obligation bonds	8,660,000		(320,000)	8,340,000	330,000
Special refunding obligations bonds	19,310,000		(920,000)	18,390,000	960,000
Special obligation bonds	9,835,000		(390,000)	9,445,000	410,000
Special obligation bonds – IVU	24,750,000		(520,000)	24,230,000	560,000
Special obligation notes – IVU	4,241,000		(480,000)	3,761,000	520,000
Special obligation notes	7,340,000	2,215,000	(985,000)	8,570,000	1,310,000
Special obligation notes – LGA	21,022,000		(1,589,000)	19,433,000	1,589,000
Non – Revolving Line of Credit	2,044,807	5,627,040		7,671,847	
Property tax advance- CRIM	84,579,946		(1,799,760)	82,780,186	
Property tax debt	4,067,489		(2,541,381)	1,526,108	1,526,108
Interest due for accounts sold- CRIM	2,287,892		(114,395)	2,173,497	114,395
P.R. Aqueduct & Sewer Authority		3,845,036	(1,170,036)	2,675,000	1,284,000
US Department of Health & Human Services –Questioned Costs 2005-2006	427,393		(137,312)	290,081	137,312
US Department of Housing & Urban Develop. –Questioned Costs 2003-2004	266,976		(266,976)		
Puerto Rico Building Authority	3,712,129		(60,000)	3,652,129	90,000
Claims and judgment	1,072,371	699,678	(451,373)	1,320,676	
Compensated absences	<u>18,599,324</u>	<u>1,271,246</u>	<u>(3,380,463)</u>	<u>16,490,107</u>	<u>1,315,000</u>
Total long term debt	<u>\$326,260,327</u>	<u>\$ 15,778,000</u>	<u>\$ (20,359,696)</u>	<u>\$ 321,678,631</u>	<u>\$ 15,863,815</u>

- 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 \$2,120,000 for infrastructure improvements and constructions. Outstanding bonds payable at June 30, 2013 are as follows:

13. LONG-TERM LIABILITIES (continued)

Description	Balance at June 30, 2013
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%	\$ 320,000
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%	23,515,000
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%	10,360,000
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%	8,340,000
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%	11,020,000
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 %	8,030,000
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%	3,415,000
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%	6,030,000
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%	3,390,000
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%	9,352,000
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%	6,340,000
2008 Special obligation bond for infrastructure construction with an original amount of \$26,100,000 due in annual installments of \$415,000 to \$2,210,000 through July 1, 2032, with interest ranging of 5.4% to 7%	24,230,000

13. LONG-TERM LIABILITIES (continued)

Description	Balance at June 30, 2013
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%	15,105,000
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%	3,000,000
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%	645,000
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%	4,395,000
2011 General bond for operational activities with an original amount of \$13,050,000 due in installments of \$190,000 to \$1,095,000 through July 1, 2035, with interest ranging from 6% to 7.50%	12,655,000
2012 General obligation bond for construction of capital assets with an original amount of \$2,335,000 due in installments of \$85,000 to \$245,000 through July 1, 2026, with interest ranging from 6% to 7.5%	2,250,000
2012 General bond for operational activities with an original amount of \$13,048,000 due in installments of \$190,000 to \$1,093,000 through July 1, 2036, with interest ranging from 6% to 7.50%	12,858,000
2012 General obligation bond for construction of a capital assets with an original amount of \$3,260,000 due in installments of \$45,000 to \$270,000 through July 1, 2036, with interest ranging from 6% to 7.50%	3,215,000
2012 General obligation bond for construction of a capital assets with an original amount of \$785,000 due in installments of \$35,000 to \$90,000 through July 1, 2024, with interest ranging from 6% to 7.50%	750,000
2013 General obligation bond for construction of a capital assets with an original amount of \$505,000 due in installments of \$5,000 to \$45,000 through July 1, 2037, with interest ranging from 6% to 7.50%	505,000
2013 General obligation bond for construction of a capital assets with an original amount of \$1,615,000 due in installments of \$35,000 to \$145,000 through July 1, 2032, with interest ranging from 6% to 7.50%	1,615,000
Total	<u>\$ 171,335,000</u>

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13. LONG-TERM LIABILITIES (continued)

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

Year Ending June 30,	Principal	Interest
2014	\$ 7,978,000	\$ 10,577,500
2015	8,195,000	10,258,397
2016	7,015,000	9,867,953
2017	7,428,000	9,487,494
2018	7,912,000	9,072,358
2019-2023	47,198,000	37,003,556
2024-2028	42,197,000	22,594,038
2029-2033	30,759,000	10,380,057
2034-2038	12,653,000	1,584,413
Total	\$ 171,335,000	\$ 120,825,766

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.

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

Type of notes	Maturity Date	Original Amount	Range of Interest Rate	Balance at June 30, 2013
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	8,868,000
Loan guarantee assistance (LGA) notes - Series 2008-A	8-1-15	3,845,000	8.04% to 8.19%	1,675,000
General obligation note 2010 series	7-1-16	435,000	6.0% to 7.50%	275,000
General obligation note 2011 series	7-1-17	640,000	6.0% to 7.50%	485,000
General obligation note 2011 series	7-1-17	2,015,000	6.0% to 7.00%	1,540,000
General obligation note 2011 series	7-1-17	3,575,000	6.0% to 7.50%	2,735,000
General obligation note 2012 series	7-1-18	1,490,000	6.0% to 7.50%	1,320,000
General obligation note 2012 series-(IVU)	7-1-18	1,005,000	6.0% to 7.50%	890,000
General obligation note 2012 series-(IVU)	7-1-18	1,030,000	6.0% to 7.00%	915,000
General obligation note 2012 series-(IVU)	7-1-18	2,206,000	6.0% to 7.50%	1,956,000
General obligation note 2013 series	7-1-19	2,215,000	6.0% to 7.0%	2,215,000
Total notes payable				\$31,764,000

13. LONG-TERM LIABILITIES (continued)

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

The notes, totaling \$19,433,000 is payable in annual aggregate principal installments of \$1,589,000, plus interest rates which fluctuates from 8.04% to 8.19%.

5. **General obligation note 2013 series** – During the current year, the Municipality issued note for \$2,215,000 to finance acquisition of equipment. This note 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.

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

Year Ending June 30,	Principal	Interest
2014	3,419,000	1,342,402
2015	3,559,000	1,084,257
2016	3,734,000	909,897
2017	3,329,000	732,309
2018	3,414,000	555,496
2019-2023	6,994,000	1,562,843
2024-2028	5,225,000	737,091
2029-2033	2,090,000	67,872
2034-2038		
Total	\$ 31,764,000	\$ 6,992,167

6. **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, plus interest, 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 30, 2013. As of June 30, 2013, outstanding credit line balance was \$ 7,671,847, plus interest.
7. **Property Taxes Debts**- These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM) at June 30, 2013. The CRIM issued a settlement noting that the advances exceeded collections by \$86.5 million. In the government-wide financial statements, the entire amount has been recognized as long term debt.
8. **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).

13. LONG-TERM LIABILITIES (continued)

- 9. 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 be paid in accordance to the payment plan with operational fund (General Fund).
- 10. 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, 2013 as described in Note 8.
- 11. 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, 2013, the outstanding balance is \$1,320,676. This amount is presented in the government-wide financial statement.
- 12. Compensated absences**- The government-wide statement of net position includes approximately \$16.4 million of accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

14. 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.

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.

14. RETIREMENT PLAN (continued)

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 it 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.

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:

Municipality	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

14. RETIREMENT PLAN (continued)

Annual Contribution

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

Fiscal year	Law No. 447	System 2000
2013	\$ 1,607,688	\$ 1,499,656
2012	\$ 2,164,272	\$ 2,027,251
2011	\$ 2,162,594	\$ 1,948,893

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, 2013, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

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15. FUND BALANCE (DEFICIT)

As of June 30 2013, fund balance (deficit) is comprised of the following:

FUND BALANCE (DEFICIT)	GENERAL FUND	CAPITAL PROJECTS FUND- BOND ISSUES	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND GRANTS	WORKFORCE INVESTMENT ACT GRANTS	HOUSING & URBAN DEVELOPMENT GRANTS	OTHER FUNDS	TOTAL GOVERNMENTAL FUNDS
Restricted for:								
General Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,152	\$ 6,152
Public Safety							36,600	36,600
Public Works	7,204,481						18,175	7,222,656
Health and Welfare	1,915,795					3,142,254		5,058,049
Urban Development	6,113,015					475,846	173,995	6,762,856
Culture and Recreation	303,778							303,778
Education	30,776			254,610	103,846		35,248	424,480
Special Communities	1,659,976							1,659,976
Capital Projects	5,396,239	6,856,383					590,014	7,446,397
Debt Service			14,566,559					14,566,559
Committed:								
General Government	2,506						41,235	43,741
Culture and Recreation	31,419						20,118	51,537
Unassigned	(53,542,722)							(53,542,722)
Total Fund Balance (Deficit)	<u>\$ (36,280,976)</u>	<u>\$ 6,856,383</u>	<u>\$ 14,566,559</u>	<u>\$ 254,610</u>	<u>\$ 103,846</u>	<u>\$ 3,618,100</u>	<u>\$ 915,537</u>	<u>\$ (9,965,941)</u>

16. 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.

17. 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, 2013, amounted to approximately \$1.8 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, 2013 of approximately \$12.9 million for the construction, improvements, or renovation of several municipal facilities.

Other Commitments:

At June 30, 2013, the general fund had commitments of approximately \$2.6 million for purchases orders or contracts that will be honored during the subsequent year.

18. 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, 2013, 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 grating agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

18. 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 \$1.1 million at June 30, 2013.

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.

19. 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, 2013, the estimated remaining life was approximately 6.5 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 Proteccion 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.

19. 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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20. 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, 2012	<u>\$(18,480,789)</u>	<u>\$ 15,667,223</u>	<u>\$ 17,568,233</u>	<u>\$ 82,186</u>	<u>\$ -</u>	<u>\$ 7,734,698</u>	<u>\$ 4,563,655</u>	<u>\$27,135,206</u>
Reclassification from Fund Financial Statements to Government Wide Financial Statements "Puerto Rico Aqueduct & Sewer Authority" (Payment Plan).	2,675,000							2,675,000
Adjustment related to recognition of Deferred Revenues	-	-	-	799,258	33,440	-	-	832,698
Fund balance, beginning as, restated	<u>\$(15,805,789)</u>	<u>\$ 15,667,223</u>	<u>\$ 17,568,233</u>	<u>\$ 881,444</u>	<u>\$ 33,440</u>	<u>\$ 7,734,698</u>	<u>\$ 4,563,655</u>	<u>\$30,642,904</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 position:

Description	Total
Net position, beginning	\$ 112,429,133
Adjustments related to Capital Assets - Construction in Progress	6,533,101
Net position, beginning as restated	<u>\$ 118,962,234</u>

21. SUBSEQUENT EVENTS

Act. No 3 of April 4, 2013

On April 4, 2013, the Governor of Puerto Rico signed into law Act No. 3 of 2013, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited, to the following:

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
- Increases the minimum pension for current retirees from \$400 to \$500 per month.
- The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
- The retirement age for current System 2000 participants is increased gradually from age 60 to age 65.
- Eliminates the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
- The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- The employee contribution rate will increase from 8.275% to 10%.
- For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
- Eliminates or reduces various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees is reduced from \$600 to \$200 and is eliminated for future retirees. The summer bonus will be eliminated.
- Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
- Survivor benefits will be modified.

In addition, the Commonwealth has proposed incremental annual contributions from the General Fund of \$140 million per year, for the next 20 years, to increase the liquidity and solvency of the ERS. An appropriation for such annual contribution has been included in the Commonwealth's proposed budget for the fiscal year 2014.

21. SUBSEQUENT EVENTS (continued)

Based on current census data, expectations of market conditions and other actuarial information provided by consulting actuaries, the changes instituted by Act No. 3, along with the additional annual contributions of \$140 million to be received from the Commonwealth during the next 20 years, will be sufficient to cover the System's current and future obligations

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

On June 30, 2013, the Commonwealth of Puerto Rico enacted Acts No. 40 through No. 48 (also known as the Comprehensive Tax Reform Acts), which amended the following Acts, Regulations and Codes: 1) the Puerto Rico Insurance Code under Act No. 77 of June 19, 1957, as amended, 2) the Property Tax Act under Act No. 83 of 1991, 3) the Savings and Loans Cooperatives Act under Act No. 255 of 2002, as amended, 4) the Puerto Rico Sales Tax Financing Corporation (COFINA) Act under Act No. 91 of 2006, 5) several articles of Act No. 1 of 2011 (also known as the Internal Revenue Code for a New Puerto Rico), 6) the Fiscal Reform Act of 2006 under Act No. 103 of 2006, 7) Act No. 164 of 2001, and 8) Act No. 221 of May 15, 1948. All these amendments are designed to achieve, among other things, an expansion of the revenue base of the general fund of the Commonwealth of Puerto Rico, and are expected to bring additional and consistent tax revenue. The aforementioned amendments involve, among other changes, the imposition of the sales and use taxes to certain business to business transactions, as defined, previously excluded, and other procedural changes (Acts No's. 40 and 42).

Act. No. 18 of 2014

On January 24, 2014, was signed the Act No. 18 of 2014, to create the "Law of Municipal Administration Fund", to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of debt, whose repayment source are the funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for the purposes set out in this Act, amend paragraph (b) of Section 4020.01, amend paragraph (b) of Section 4020.02, and amend paragraph (a) and to repeal paragraph (e) of Section 6080.14 of the Act No. 1-2011, as amend, known as the "Internal Revenue Code for a New Puerto Rico", in order to restructure the sales and use tax so that the tax rate is six (6) percent state level and one (1) percent at the municipal level.

Act. No 19 of 2014

On January, 24, 2014, the Commonwealth of Puerto Rico enacted Act No. 19 (also known as the Municipal Financing Corporation Act), to authorize the creation of a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico knows as "Municipal Financing Corporation" (COFIM, by its acronyms in Spanish), with the power to issue and/or use other mechanisms to pay or refinance the debt incurred by the municipalities, whose payment of principal and interest

21. SUBSEQUENT EVENTS (continued)

is supported by municipal sales and use taxes; establish that the first collections of municipal sales and use tax of one percent (1%) will be collected by municipalities and deposited directly to the Redemption Fund of the Municipal Financing Corporation; establish that bonds and obligations issued by the "Municipal Financing Corporation" will be payable and secured by the pledge of the greater of (i) a fixed amount of the municipal sales and municipal tax or (ii) the amount of the municipal sales and use tax fixed at zero point three percent (0.3%) collected during the previous fiscal year; and amend the paragraph (c) of section 4050.06, amend paragraph (a) of section 4050.07, amend paragraph (a) and (b) of section 4050.08, amend paragraph (a) of section 4050.09, and amend paragraphs (b), (c) and (d), repeal paragraph (e) and renumber paragraph (f) as (e) of section 6080.14 of the Act 1-2011, as amended, known as the "Internal Revenue Code for a new Puerto Rico".

Port of Ponce Authority

Pursuant to Act 240 -2011, as amended, the Municipality of Ponce is currently in ongoing negotiations with the Port of Ponce Authority (PPA) as to the terms and conditions whereby certain municipal property under lease or sub-concession for the development and operation of the Port of the Americas. A preliminary Lease Agreement was executed by the parties on February 14, 2014, with provisional terms until a final agreement is reached.

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 36,336,795	\$ 36,336,795	\$ 30,502,895	\$ (5,833,900)
Municipal license tax	24,995,000	24,995,000	20,911,971	(4,083,029)
Sales tax	16,994,917	16,994,917	13,752,116	(3,242,801)
Licenses, permits and other local taxes	10,085,000	10,085,000	6,960,108	(3,124,892)
Royalties and others	3,025,000	3,025,000	2,457,374	(567,626)
Charges for services	791,700	791,700	547,975	(243,725)
Intergovernmental – State Contributions	16,623,492	16,623,492	17,414,526	791,034
Fines and forfeiture	950,000	950,000	311,853	(638,147)
Interest	1,052,900	1,052,900	106,404	(946,496)
Miscellaneous	<u>1,250,000</u>	<u>1,250,000</u>	<u>1,070,845</u>	<u>(179,155)</u>
Total revenues	<u>112,104,804</u>	<u>112,104,804</u>	<u>94,036,067</u>	<u>(18,068,737)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	57,929,509	57,929,509	59,746,684	(1,817,175)
Public safety	14,430,186	14,430,186	13,826,405	603,781
Public works	16,319,346	16,319,346	15,523,676	795,670
Health and welfare	6,282,188	6,282,188	10,454,299	(4,172,111)
Culture and recreation	9,117,854	9,117,854	8,725,126	392,728
Urban development	4,312,609	4,312,609	3,137,550	1,175,059
Education	1,817,377	1,817,377	1,883,410	(66,033)
Operational Transfer to Debt Service Fund	<u>1,895,735</u>	<u>1,895,735</u>	<u>1,897,025</u>	<u>(1,290)</u>
Total expenditures, encumbrances and other financing uses	<u>112,104,804</u>	<u>112,104,804</u>	<u>115,194,175</u>	<u>(3,089,371)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)			\$ (21,158,108)	\$ (21,158,108)
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 94,036,804
Differences-budget to USGAAP:				
Non-budgeted revenues				16,526,313
Non-budgeted transfer-in				<u>11,998,241</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 122,561,358</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 115,194,175
Differences-budget to USGAAP:				
Non-budgeted expenditures				19,446,222
Non-budgeted transfer-out				7,651,879
Prior year encumbrances recorded as current year expenditures for USGAAP basis				3,322,869
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(2,578,600)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 143,036,545</u>

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, 2013 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2013.

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ASSETS	Section 8 Housing Choice Vouchers	Section 8 Moderate I & II Rehabilitation
Current assets cash		
Cash –unrestricted	\$ 829,266	\$ 769,937
Receivables		
Accounts receivable – Other Government	27,736	
Accounts receivable – Miscellaneous	4,206	523
Fraud Recovery	248,799	
Less: Allowance for Doubtful Accounts - Fraud	(34,832)	
Investments-Restricted	14,339	
Prepaid Expenses and Other Assets	238,534	1,699
Inventories	7,766	285
Inter Program Due From	87,445	
Total current assets	<u>1,423,259</u>	<u>772,444</u>
Capital assets		
Furniture, equipment & machinery-Administration	421,620	11,138
Leasehold Improvements	20,195	544
Less: Accumulated depreciation	(284,210)	(7,927)
Total capital assets, net of accumulated depreciation	<u>157,605</u>	<u>3,755</u>
Other Assets	31,214	10,139
Total assets	<u>\$ 1,612,078</u>	<u>\$ 786,338</u>

	<u>Section 8 Housing Choice Vouchers</u>	<u>Section 8 Moderate I & II Rehabilitation</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current liabilities		
Accounts payable <=90 days	64,053	2,921
Accrued Wage/ Payroll Taxes Payable	7,225	
Accrued Compesated Absences – Current Portion	32,478	
Accounts Payable – Other Government	1,648	
Unearned Revenues	248,799	
Other Current Liabilities	85,479	219
Accrued Liabilities – Other	14,339	245
Inter Program- Due to	85,811	
Total liabilities	<u>539,832</u>	<u>3,385</u>
Net position		
Net investment in capital assets	157,605	3,754
Restricted net position		418,340
Unrestricted net position	(914,641)	360,859
Total net position	<u>1,072,246</u>	<u>782,953</u>
Total liabilities and net position	<u>\$ 1,612,078</u>	<u>\$ 786,338</u>

REVENUES	Section 8 Housing Choice Vouchers	Section 8 Moderate I & II Rehabilitation
Housing assistance payments	\$ 9,353,911	\$ 260,607
Investment Income – Unrestricted		120
Ongoing administrative fee earned	4,560	-
Total HUD PHA operating revenues	<u>9,358,471</u>	<u>260,727</u>
Investment Income – Restricted	35,271	995
Fraud recovery	45,422	
Other revenues	140,688	
Total revenues	<u>9,579,852</u>	<u>261,722</u>
 EXPENSES		
Operating - administrative expenses		
Administrative salaries	594,758	16,356
Employee-benefit contributions – administrative	215,731	5,988
Office Expenses	7,006	195
Legal Expenses	27,484	765
Travel Expenses	1,926	175
Allocated Overhead		530
Other general expenses	181,225	6,076
Total operating expenses	<u>1,028,130</u>	<u>30,085</u>

Expenses	Section 8 Housing Choice Vouchers	Section 8 Moderate I & II Rehabilitation
Housing Assistance Payments	9,769,264	265,350
HAP Portability-in	130,523	
Depreciation	68,754	
Total expenses	10,996,671	295,435
Other financing uses		
Excess (Deficiency) of total revenue over (under) total expenses	(1,416,819)	(33,713)
Total net position, beginning	2,328,838	906,000
Prior period adjustments, equity transfers and correction	160,227	(89,334)
Total net position, ending	\$ 1,072,246	\$ 782,953

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Federal Grantor/ Pass-through Grantor/Program or cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Pass-through Commonwealth of Puerto Rico- Education Department			
Child Care and Adult Food Program	10.558	CCC-049	\$ 956,826
Total U.S. Department of Agriculture			956,826
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
CDBG – Entitlement Grants Cluster:			
Community Development Block Grant – Entitlement Program	14.218		5,220,542
Emergency Shelter Grants Program	14.231		310,995
Subtitle of Title IV –Vento Homeless Assistance (Shelter Plus)	14.238		173,324
Home Investment Partnerships Program	14.239		1,782,538
Section 8 Housing Choice Vouchers	14.871		9,353,911
Section 8 - project- Based Cluster:			
Lower Income Housing Assistance Programs			
Section 8 - Moderate Rehabilitation I	14.856		18,751
Section 8 - Moderate Rehabilitation II	14.856		241,856
Total U.S. Department of Housing and Urban Development			17,101,917
U.S. DEPARTMENT OF JUSTICE			
Pass-through Commonwealth of Puerto Rico			
Recovery Act – Project Security Neighborhood	16.609		1,058
Recovery Act – Public Safety Partnership and Community Policing Grants	16.710	2009-RJ-WX-0075	157,165
Recovery Act -Edward Byrne Memorial Justice	16.738	2009-SU-B9-0053	584
Total U.S. Department of Justice			158,807
U.S. DEPARTMENT OF LABOR			
Pass-through Programs:			
Commonwealth of Puerto Rico Department of Labor (Council of Occupational Development and Human Resources):			
Workforce Investment Act Cluster:			
Adult Program	17.258		1,223,863
Youth Activities	17.259		791,271
Dislocated Workers	17.260		340,826
Total Workforce Investment Act			3,355,960
U.S. DEPARTMENT OF TRANSPORTATION – (NHTSA)			
Pass-through Commonwealth of Puerto Rico-Police Department			
State and Community Highway Safety – Community Program	20.600		21,305
Alcohol Open Container Requirements – Continued Traffic Enforcement	20.607	2007-03-60	3,811
Total U.S. Department of Transportation – (NHTSA)			25,116

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

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013**

Federal Grantor/ Pass-through Grantor/Program or cluster Title	Federal CFDA Number	Pass-through Entty Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF ENERGY			
Direct Program:			
American Recovery and Reinvestment Act 2009: Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		814,164
Total U.S. Department of Energy			814,164
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
Administration for Children, Youth and Families Head Start Cluster: Head Start Program	93.600		12,035,607
HIV Emergency Relief Project Grants	93.914		1,738,443
Total U.S. Department of Health and Human Services			13,774,050
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through Commonwealth of Puerto Rico - Emergency Management Agency			
Disaster Recovery Assistance	97.036		190,197
Disaster Grants - Public Assistance	97.036	FEMA 1798-DR-PR FEMA 1798-DR-PR	563,733
Pass-through Commonwealth of Puerto Rico - Department of Justice:			
Port Security Grant Program	97.056	2008-GB-T8-K116 2005-GE-T5-4009	2,239
Homeland Security Grant Program	97.067	2008-GE-T8-0001	957,194
Total U.S. Department of Homeland Security			1,713,363
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 36,900,203

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>\$ 36,900,203</u>
Federal expenditures per basic financial statements included herein:	
Health and Human Services Grants	\$ 13,774,050
Workforce Investment Act Grants	2,335,960
Housing and Urban Development Grants	17,101,917
Others	<u>3,688,276</u>
Total	<u>\$ 36,900,203</u>

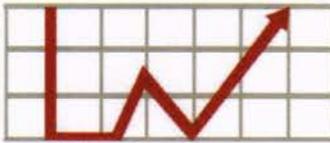
3. SUBRECIPIENTS ENTITIES (FUNDS PROVIDED)

During the fiscal year ended June 30, 2013, the Municipality provided the following federal funds to sub recipient's entities:

HIV Emergency Relief Project Grants (93.914)	\$ 1,698,847
Community Development Block Grant (CDBG) – Entitlement (14.218)	<u>101,352</u>
Total	<u>\$ 1,800,199</u>

4. SECTION 108 LOAN PAYMENTS

For the fiscal year ended June 30, 2013, the Municipality paid the amount of \$1,589,000 in principal as repayment of Section 108 Loan Guarantee Assistance Notes (LGA).



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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- Puerto Rico Society of Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by Comptroller General of the United States, 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, 2013, and the related notes to the financial statements, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated March 28, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the **Autonomous Municipality of Ponce's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Autonomous Municipality of Ponce's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Ponce's** internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items **12-01** thru **12-05**, that we consider to be significant deficiencies.

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

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated March 28, 2014.

Autonomous Municipality of Ponce's Response to Findings

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. **Autonomous Municipality of Ponce's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 28, 2014

Stamp No. 2675815 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



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

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

Report on Compliance for Each Major Federal Program

We have audited the **Autonomous Municipality of Ponce's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Autonomous Municipality of Ponce's** major federal programs for the year ended June 30, 2013. The **Autonomous Municipality of Ponce's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Autonomous Municipality of Ponce's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Autonomous Municipality of Ponce's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the **Autonomous Municipality of Ponce's** compliance.

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

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

As described in items in **13-09** thru **13-13** in the accompanying schedule of findings and questioned costs the **Autonomous Municipality of Ponce** did not comply with requirements regarding allowable costs / cost principles, cash management, earmarking, procurement and suspension and debarment, and reporting that are applicable to Head Start Cluster [Head Start Program (CFDA No. 93.600)] in finding numbers **13-10** thru **13-13**; with requirements regarding eligibility, and reporting that are applicable to Section 8 Housing Choice Voucher (CFDA No. 14.871) in finding number **13-09**. Compliance with such requirements is necessary, in our opinion, for the **Autonomous Municipality of Ponce** to comply with the requirements applicable to those programs.

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

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the **Municipality** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Head Start Program and Section 8 Housing Choice Voucher Program for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the **Autonomous Municipality of Ponce** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures also disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **13-06** thru **13-08**, **12-13** and **13-14**. Our opinion on each major federal program is not modified with respect to these matters.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

Other Matters (Continued)

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

Report on Internal Control over Compliance

Management of the **Autonomous Municipality of Ponce** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Autonomous Municipality of Ponce's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Autonomous Municipality of Ponce's** internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **13-09** thru **13-10**, **13-12** and **13-13** to be material weaknesses.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

Report on Internal Control over Compliance (Continued)

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as items; **13-06** thru **13-08**, **12-13** and **13-14** to be significant deficiencies.

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated March 28, 2014.

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 28, 2014

Stamp No. 2675816 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	FFS - Unmodified and GWFS - Qualified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified, except for qualified for Head Start Cluster (93.600) and Section 8 Housing Choice Vouchers (14.871)	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	CDBG – Entitlement Grants Cluster:
14.218	Community Development Block Grant – Entitlement Program
14.239	Home Investment Partnership Program
14.871	Section 8 Housing Choice Vouchers
	Work force Investment Act Cluster:
17.258	Adult Program
17.259	Youth Activities
17.260	Dislocated Workers
	Head Start Cluster:
93.600	Head Start Program
93.914	HIV Emergency Relief Project Grants

Dollar threshold used to distinguish Between Type A and Type B programs	\$1,107,006
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Auditee qualified as low-risk auditee?	Yes	No X
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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.)

Finding Reference	13-01
Requirement	Operating deficit of general fund
Statement of Condition	The Municipality closed its fiscal year ended June 30, 2013 with a fund deficit, before providing reserves in the general fund, of \$ 36,280,976. Also, the Municipality closed with an accumulated unassigned deficit of \$ 53,542,722. The Municipality's internal control relating to the budgeting function does not adequately prevent management from incurring expenditures in excess appropriated funds. In addition, the deficit was caused by the overstatement of estimated revenues and the incurrence of obligations without available credit in the budgetary accounts.
Criteria	<p>Article 8.004 (b) of the Municipalities Law establishes that the Municipality cannot obligate or spend funds in excess of the ensuing fiscal year. No amount shall be expended or obligated in a given fiscal year if exceeds its budgeted or authorized amounts by the Municipal Legislation.</p> <p>Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico (The regulation) states that special care must be taken to prepare the revenues estimates so these will not results in budget appropriations in excess of available resources.</p>
Cause of Condition	This situation occurs because the Municipality is appropriating expenditures assuming the future collection of revenues using estimated tax collection provided the office Budgeting Division and Municipal Revenue Collection Center. Therefore, the Municipality enters into purchases and contracts exceeding the actual taxes revenues earned and collected. The budgeting system does not reflect actual revenues and therefore cannot prevent the obligation of expenditures for which current resources will not be available. The overstatement of estimated revenues and the incurrence of obligations without available credit caused the Municipality to operate with a deficit.
Effect of Condition	<p>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.</p> <p>The continued occurrence of this situation could result in possible significant limitations on available funds and eventual reduction or elimination of municipal services since future collection of revenues will need to be used to pay for accumulated liabilities.</p>
Recommendation	We recommend management to evaluate the adequacy of the provision for deficit reserve accounts in the next fiscal year budget for the amortization of public debt as recommended by Law. Also, the Municipality's officers must evaluate the negative variances between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.

Section II – Financial Statements Findings

Finding Reference 13-01 (continued)

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality of Ponce have taken the following measurements to avoid future operational deficits at end of year and to reduce the accumulated deficit:

- Beginning on March 2013 a labor reduction policy was implemented consisting in reducing to all employees, two (2) labor days per month and 5% of reduction in the salaries for Department Directors and confidence personnel.
- An early termination was declared to all appointment in the transitory and irregular service, except some positions necessary to guarantee the continuity of public services.
- Beginning on February 2013, a reduction of 5% of the contract amount was established to all provider or professional services.
- A provision for deficit reserve of \$50,000 was included in the municipal budget of the fiscal year 2013-2014.
- Beginning on fiscal year 2013-2014, the Municipality contracts the insurance policies directly with the insurance agencies as authorized by Law Number 63 approved on June 21, 2010. As a result of such measurement the Municipality saved \$505,145.53 in insurance policies applicable to that fiscal year. On September 13, 2013 the Municipal Legislature authorized to the Director of Finances and Budget, by means of the Resolution Number 23, Series of 2013-2014 to make a credit transference in the effective budget for year 2013-2014, to increase by \$505,145.53 the budgetary item "Deficit of Previous Years", which is used to amortize the accumulated deficit.
- The Municipal Financial Team is evaluating additional alternatives to decrease expenses and increase income in order to avoid deficits in the current and future budgets and to reduce the accumulated deficit.

Partially Corrected

Implementation Date: During Fiscal Year 2013-2014

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

Section II – Financial Statements Findings

Finding Reference	13-02
Requirement	Financial Reporting – Accounting Records
Statement of Condition	During our examination of the Municipality's accounting system, we noted that the accounting data still require several reporting adjustment in order to present the Municipality's financial statements in the modified accrual basis of accounting. Also, the accounting data requires several reporting adjustments to produce government wide financial statements.
Criteria	Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Law, 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.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records.
Effect of Condition	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.
Recommendation	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.
Questioned Costs	None
Management Response and Corrective Action	<p>As a measurement to achieve an accounting system that provide updated and complete financial information, the Finance and Budget Director will assign a special committee to identify and write the adequate internal control and procedures necessities to maintain an accounting system containing information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.</p> <p>Still in Process</p> <p>Implementation Date: September 2014</p> <p>Responsible Person: Mrs. Ramona Pacheco, Finance and Budget Director</p>

Section II – Financial Statements Findings

Finding Reference 13-03

Requirement Reconciliation Procedures – Federal Programs

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

This condition may cause not detecting or preventing errors or irregularities on a timely basis because there is no central oversight of all of the Municipality's financial operations. The Finance Director is currently placing reliance upon the accounting records maintained by each of the Programs without having any control procedure to detect inconsistent accounting treatments.

The Municipality should be aware of its responsibility for administering the grants even though a separate fiscal unit or department is assigned the responsibility of administering the funds.

Criteria Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Law, 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.

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.

Cause of Condition Lack of supervision and quality control procedures in the Accounting Division. The Municipality did not establish effective internal control over the transactions recorded on its accounting records.

Section II – Financial Statements Findings

Finding Reference 13-03 (continued)

Effect of Condition 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.

Recommendation The Municipality should implement monthly reconciliations of the transaction recorded in each of the aforementioned programs with the transactions processed and recorded in the central accounting department. In addition, it should ensure that all federal financial reports are prepared based on the financial information once reconciled.

Questioned Costs None

**Management Response
and Corrective Action**

The Finance and Budget Director will establish and implement policies and procedures for the reconciliation of the transactions recorded in the Federal Program's accounting records with those recorded in the municipal accounting department, which to permit to detect or to prevent errors or irregularities on a timely basis and to ensure that all federal financial reports are prepared based on the financial information once reconciled.

Still in process

Implementation Date: During Fiscal Year 2013-2014

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

Section II – Financial Statements Findings

Finding Reference	13-04
Requirement	Municipal license tax revenues
Statement of Condition	Municipal license tax revenues of the fiscal year 2013-2014, which were collected in advance from taxpayers between January 1 thru June 30, 2013 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund during the fiscal year ended June 30, 2013. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2013-2014, and must not be used to pay obligations of the prior year.
Criteria	Article 8.004(b) of Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) states that the Municipality cannot use or obligate any amount in a given fiscal year that exceeds the appropriations and the resources authorized by ordinance or resolution for such fiscal year. In addition, the Municipality cannot be committed, in any form, to any contract or negotiation for the future payment of amounts that exceed the current fiscal year's budgeted resources.
Cause of Condition	The foregoing condition is primarily due to the facts that the Municipality does not prepare cash flows forecasts and projections to anticipate any cash flows shortage. Management does not have timely and accurate information regarding its operations and cannot monitor the adherence to the established budget appropriations and cash flows.
Effect of Condition	This situation will result in possible significant general fund limitations and eventual reduction or elimination of municipal services since future revenues were used to pay for accumulated liabilities.
Recommendation	We recommend the Municipality to prepare cash flows forecasts and projections to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of the current fiscal year.
Questioned Costs	None
Management Response and Corrective Action	With the implementation of corrective actions taken to the Finding 2013-01, we expect to avoid or, at least, reduce the use of the license tax revenues collected in advance, in future fiscal years. Partially Corrected Implementation Date: During Fiscal Year 2013-2014 Responsible Person: Mrs. Ramona Pacheco, Finance and Budget Director

Section II – Financial Statements Findings

Finding Reference	13-05
Requirement	Inadequate Interfund Transactions
Statement of Condition	The Municipality transfers certain restricted funds to the general operating fund on a temporary basis. These funds were granted by the Commonwealth of Puerto Rico for specific restricted purposes. However, these funds have been properly reflected in the accompanying basic financial statements as amounts due to and due from the respective funds.
Criteria	This situation referred to above departs from the provisions of Section 8 of Act No. 179-2002 and Section 8.004 (c) of the Act No. 81-1991. Also, Memorandum Circular No.93-94 of November 17,1993, issued by the Commissioner of Municipal Affairs.
Cause of Condition	Lack of cash flow at certain times of fiscal year.
Effect of Condition	The situation referred to above resulted in the use of funds appropriated by the Legislature for purposes other than the ones for which they were approved and authorized. Also, the noncompliance with the agreed conditions can be detrimental to the Municipality for future assignments.
Recommendation	The Municipality should immediately refund amount owed to the restricted funds.
Questioned Costs	None
Management Response and Corrective Action	As indicated in this finding, the nature of the transfers realized was temporary and the funds have been properly reflected in the basic financial statements as amounts due to and due from the respective funds. Also, the funds assigned by the Puerto Rico Legislature were registered and accounted for in the corresponding expenditure account (Resoluciones Conjuntas). The Municipality observed due procurement procedure for the acquisition of property or services applicable to the assigned funds, as established in the local law and regulation. The projects related to the 99% of funds assigned by the Puerto Rico Legislature have been realized or are in construction process. In addition, after June 2013 the Municipality refunded all the transferred funds to the corresponding bank account.

Implementation Date: During Fiscal Year 2013-2014

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.)

Finding Reference **13-06**

Program **CDBG – Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218); U.S. Department of Housing and Urban Development**

Requirement **Cash Management (C)**

Statement of Condition The Municipality's internal control over compliance with the cash management requirements of federal program is not effective since it is not minimizing the time elapsed between the receipt and disbursement of funds. In our test of seventeen (17) fund requisitions, we noted the following exceptions:

- a) In three (3) fund requisitions for \$192,620, we observed that the Municipality made the disbursements between six (6) to nine (9) days after the deposits;
- b) The bank reconciliations (BR), shows average monthly cash balance of \$12,989 in the CDBG – Entitlement Bank Account. The cash balance shows a higher cash balance in the following months:

Month	(BR) Amount
February 2013	\$ 114,615
March 2013	\$ 109,472
April 2013	\$ 163,832
May 2013	\$ 96,815

- c) The bank reconciliations in the CDBG – Entitlement Bank Account. The cash balance shows a negative cash balance in the following months:

Month	(BR) Amount
July 2012	\$ (59,590)
August 2012	\$ (84,397)
September 2012	\$ (74,437)
October 2012	\$ (25,862)
November 2012	\$ (86,617)
December 2012	\$ (64,110)

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	13-06 (continued)
Criteria	(continued)
Criteria	<p>24 CFR Subpart C, Section 85.20 (b) (7), <i>Cash management</i>. Procedures for minimizing the time elapsing between the transfer of funds from 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.</p> <p>24 CFR Subpart I, Section 570.489 (c), <i>Federal grant payments – (1) Payment</i>. The state shall be paid in advance in accordance with Treasury Circular 1075 (31 CFR part 205). The State shall use procedures to minimize the time elapsing between the transfer of grant funds and disbursement of funds by the State to units of general local government. Units of general local government shall also use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement for CDBG activities.</p>
Cause of Condition	The Municipality's disbursements procedures failed to assure that funds requested and received from grantor be disbursed in compliance with the Code of Federal Regulations Requirements. The above conditions are the result of inadequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.
Effect of Condition	This situation could cause reimbursement of funds to the federal agencies by maintains excess cash on hand.
Recommendation	The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by CDBG regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within five (5) business days.
Questioned Costs	None
Management Response and Corrective Action	<p>The Municipality will implement procedures to minimize the time elapsed between the drawdown and disbursement of funds. The procedure will include improving the process of pre-intervention and check processing.</p> <p>Still in Process</p> <p>Implementation Date: June 30, 2013</p> <p>Responsible Person: Mr. Ian Carlo Serna, Program Director, Mrs. Ramona Pacheco Finance Department Director and Mr. Osvaldo Maldonado, Accounting Unit Director (Local Level)</p>

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 13-07

Program CDBG – Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218); U.S. Department of Housing and Urban Development

Requirement Reporting (L)

Statement of Condition The Municipality's internal control over the preparation of federal financial reports is not effective. The Municipality is not ensuring that the Financial Summary Report (CO4PR26) submitted to the federal grantor contains accurate financial information. We examined the financial data within the 2012 Annual Performance and Evaluation Report submitted by the Municipality and we noted the following exceptions:

Line on Report	Amount per Report	Amount per Books	Difference
Part II, Line 15 - Total Expenditures	4,358,080.90	4,349,161.30	8,919.60
Part III, Line 31 – Total Public Service Obligation	413,818.82	502,881.27	(89,062.45)
Part III, Line 41 – Total Planning and Administration	528,822.23	640,889.31	(112,067.08)

Criteria 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 continue occurrence of this situation may result in sanctions by the federal grantor because the information provided in the Financial Summary Report and others reports does not allow them to adequately monitor and evaluate the Program's financial performance.

Recommendation Program management should review and corroborate the information included in the Annual Performance and Evaluation Report before submission to the federal grantor to ensure that all information is accurately presented. In addition, whenever significant adjustments or modifications are deemed necessary, the Municipality should amend submitted reports and include the appropriate supporting explanations.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **13-07 (continued)**

Questioned Costs None

**Management Response
and Corrective Action**

In regards to the Part II Line 15 – Total expenditures, the difference between the CO4PR26 report and the statement of revenue and expenditures was the result of an incorrect Statement of R&E report submitted to the auditor. This report did not include some adjustment made by the time when the CO4PR26 was submitted to HUD. We are including the revised report.

For the differences pointed by the auditor related to Part III Lines 31 and 41 it is important to note that, on 10/09/2007 HUD provided CPD grantees with updated instructions regarding the preparation of the PR26. As part of the instruction HUD indicated the following:

Grantees are now encouraged to NOT enter any amounts in the unliquidated obligations field on the CDBG01 because IDIS does not properly calculate the amount of unliquidated obligations by program year.

The differences identified by the auditors were caused by calculation errors of the IDIS program. The Municipality will submit a revised version of the PR26 to HUD for their review and final approval.

Still in Process

Implementation Date: September 30, 2013

Responsible Person: Mr. Osvaldo Maldonado, Accounting Unit Director (Local Level)

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	13-08
Program	CDBG – Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218)
Requirement	Sub-Recipient Monitoring (M)
Statement of Condition	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.
Criteria	<p>24 CFR Subpart C, Section 85.40 (a), <i>Monitoring grantees</i>. Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.</p> <p>Housing Authority Administrative Plan for the fiscal year 2011-2012, Monitoring procedures, establish that the current report is intended to describe the monitoring process of sub-recipient receiving CDBG funds through the Department of Housing of the Municipality of Ponce. It is composed of a sequence of stages developing a cycle:</p> <p><i>5th Stage: Evaluation of evidence submitted, & Follow Up other areas:</i> Monitoring Objective (7), To verify if subrecipient's funds administration is in reasonable and satisfactory compliance with procedures, by-laws and applicable rules in accordance with the related activity, the Agreement and the following regulation: a) OMB Circular No.- A-122 "Cost Principles for Non-Profit Organization", b) 24 CFR Part 45 or OMB Circular No.133 "Audits of States, Local Governments & Non-Profit Organizations", c) 24 CFR Part 84 or OMB Circular No. A-110 "Uniform Administrative Requirements for Grants & Agreements with Institutions of Higher Education, Hospitals & other Non-Profit Organizations"</p>
Cause of Condition	The Program did not maintain an effective control over the sub-recipient monitoring procedures established by the state and federal regulations.
Effect of Condition	The lack of a complete sub-recipient monitoring process could weaken the corroboration of adequate use of the federal funds provided to the sub-recipient entities.
Recommendation	The program should establish adequate procedures to perform fiscal and programmatic sub-recipient monitories, including the adequate training of personnel assigned to monitoring functions.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **13-08 (continued)**

Questioned Costs None

**Management Response
and Corrective Action**

The Municipality recently submitted to HUD monitoring procedures that include the review of activities undertaken by subrecipients. As of today, the subrecipient monitoring activities are in schedule and the process is ongoing.

Still in Process

Implementation Date: During Fiscal Year 2013-2014

Responsible Person: Mr. Ian Carlo Serna, Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	13-09
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Financial Reporting – Accounting Records (L) (MW)
Statement of Condition	<p>During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers 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>
Criteria	<p>24 CFR Subpart C, Part 85.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.</p> <p>24 CFR Subpart D Section 982.158 (a), 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>
Cause of Condition	<p>The Program did not establish effective procedures for the reconciliation of Financial Reporting HUD-52681-B, expenses and unit reported to federal agency versus the data recorded in the accounting record.</p>
Effect of Condition	<p>The Program's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions. In additions, the Program's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.</p>

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 13-09 (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 Municipality is in the process to actualize the Accounting System to add a module that allows the migration of the information from the HAPPY Section 8. This application will minimize the inconsistencies in the accounting records. The Municipality also adopted the HUD's HCV forecasting tools a spreadsheet tool for use by PHA and HUD staff to assist in projecting HCV leasing, spending and funding over a two year period a conciliating with VMS. We understand that with the use of the tool the conditions identified will be improved.

Still in Process

Implementation Date: During Fiscal Year 2013-2014

Responsible Person: Mr. Ian Carlo Serna, Program Director, Mrs. Anette Saliva, Housing Choice Voucher Coordinator and Mr. Osvaldo Maldonado, Accounting Unit Director (Local Level)

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 13-10

Program Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services

Requirement Cash Management (C) (MW)

Statement of Condition During our cash management test for the program year 2012 and part of the 2013, we examined over twenty eight (28) requisitions of funds and after our procedures, we found the following exceptions:

- a) Two (2) of the requisitions of funds were issued without the supporting documents. The actual results were not reconciled to assure that the fund requisition was consistent with realistic cash needs;
- b) As result of our test of twenty eight (28) requisition of funds \$57,637 were request in excess of the realistic needs, in one case because it was duplicated (\$51,067) and in thirteen (13) cases (\$6,570) because the requisition amount was calculated with estimated amounts and was not reconciled with the actual disbursements.
- c) The bank reconciliations show average monthly cash deficit of \$115,058 in the Head Start Bank Account. The cash balance shows a lower reconciled cash balance in the following months:

Month	Reconciled Balance
Jan-12	\$ (251,484.99)
Feb-12	(256,794.16)
Mar-12	(444,133.42)
Apr-12	(259,272.68)
May-12	(251,095.20)

- d) The cash balance shows a higher reconciled cash balance in the following months:

Month	Reconciled Balance
Aug-12	\$ 27,267.68
Sep-12	27,151.40
Oct-12	41,912.96
Nov-12	27,665.48

- e) The list of checks presented by the Program Staff to support a request of funds was cancelled. This amounted to \$43,490.67. New evidence was not presented to support the request.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 13-10 (continued)

Criteria (continued)

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.

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 assure that all requisition of funds consist of realistic cash needs.

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 In order to correct the effect of the indicated situations the Staff program should conduct an analysis of the cash balance in the Head Start and Early Head Start bank accounts. In addition, the staff program should establish internal controls policies to improve its procedures to comply with the cash management federal regulation.

Questioned Costs \$94,558

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **13-10 (continued)**

**Management Response
and Corrective Action**

The Program will establish a double verification procedure for the supporting documents related to each fund request in order to assure its correction and accuracy. Also, a daily verification of the bank account balances will be realized to avoid unnecessary or excessive requests.

Still in Process

Implementation Date: April 2014

Responsible Person: Mr. Narciso Alvarez, Accountant

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	13-11
Program	Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services
Requirement	Matching, Level of Effort, Earmarking – Administrative Cost Limits (G)
Statement of Condition	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.
Criteria	45 CFR, Subpart C, Section 92.20 (a) (2) states that the sub grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.
Cause of Condition	The program accounting records did not provide a chart of accounts to individually account, programmatic and administrative expenditures.
Effect of Condition	The program is not in-compliance with 45 CFR, Subpart C.
Recommendation	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.
Questioned Costs	None
Management Response and Corrective Action	When the purchase requisitions are processed in the MIP System, the expenditures are classified as administrative or programmatic. This permits the issuance of a report of total administrative expenditure per year. Partially Corrected Implementation Date: April 2014 Responsible Person: Mr. Narciso Alvarez, Accountant

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	13-12
Program	Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services
Requirement	Accounting Records (L) (MW)
Statement of Condition	During our audit, we noted that the accounting records maintain for Head Start Program do not fairly present the financial position of the program and the results of its operations. We found that \$414,490 related to the employees' fringe benefit (health insurance) were paid with the 2012 budget but not recorded as expense and \$99,052.25 were transferred from the Municipality to the Head Start bank account to cover part of this expense but it was not correctly registered. In addition, the program incurred in costs for payroll and fringe benefits in excess of the approved balances in the grant award.
Criteria	<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>
Cause of Condition	The Program does not have effective accounting procedures to assure that all transactions are registered. An adequate set of accounting records is not maintained.
Effect of Condition	The Program is not in compliance with the 45 CFR Part 92, Subpart C, Section 92.20.
Recommendation	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.
Questioned Cost	None

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 13-12 (continued)

**Management Response
and Corrective Action**

The Program took the adequate corrective action by recognizing as an expense the employees' fringe benefit (health insurance) paid. The Fringe Benefits are recorded as contribution of the municipality (In-Kind). The Municipal Finance Office will revise the program internal control procedures to assure the proper classification of expenses.

Still in Process

Implementation Date: June 2014

Responsible Persons: Mrs. Jessica Torruellas, Fiscal Officer /Mrs. Ramona Pacheco,
Finance and Budget Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	13-13
Program	Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services
Requirement	Reporting - Financial Administration (L) (MW)
Statement of Condition	In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report and the amounts detailed in the general ledger. As result, the financial reports do not agree with the program accounting records.
Criteria	The OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.
Cause of Condition	Adequate internal controls do not exist to assure the correctness of closing reports submitted to the federal agencies.
Effect of Condition	The program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1).
Recommendation	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. In addition, we recommended an evaluation and technical assistance for the Program Fiscal Area to be performed by the Internal Audit Office of the Municipality to help in the implementation of these recommendations to achieve the correction of the conditions identified in the audit.
Questioned Costs	None

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 13-13 (continued)

**Management Response
and Corrective Action**

With the recent implementation of the MIP System the Program expects to avoid differences between the amounts reported as federal expenditures in the Financial Status Report and the amounts detailed in the general ledger. The Municipal Finance Department will collaborate with the Program in the establishment of monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports.

Partially Completed

Implementation Date: July 2014

Responsible Person: Mr. Narciso Alvarez, Accountant/ Ramona Pacheco, Finance and Budget Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	13-14
Program	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services
Requirement	Sub-Recipient Monitoring (M)
Statement of Condition	During our Sub-recipient Monitoring test, we found that the program did not comply with applicable requirements for fiscal monitoring. The program did not shall evidence concerning the Statement of work, reports and accounting records.
Criteria	<p>44 CFR Subpart C, Section 85.40 (a), <i>Monitoring grantees</i>. Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.</p> <p><u>5th Stage: Evaluation of evidence submitted, & Follow Up other areas:</u> Monitoring Objective (7), To verify if subrecipient's funds administration is in reasonable and satisfactory compliance with procedures, by-laws and applicable rules in accordance with the related activity, the Agreement and the following regulation: a) OMB Circular No.- A-122 "Cost Principles for Non-Profit Organization", b) 44 CFR Part 45 or OMB Circular No.133 "Audits of States, Local Governments & Non-Profit Organizations".</p>
Cause of Condition	The Program did not maintain an effective control over the sub-recipient monitoring procedures established by the state and federal regulations.
Effect of Condition	The lack of a complete sub-recipient monitoring process could weaken the corroboration of adequate use of the federal funds provided to the sub-recipient entities.
Recommendation	The program should establish adequate procedures to perform fiscal and programmatic sub-recipient monitories, including the adequate training of personnel assigned to monitoring functions.
Questioned Costs	None
Management Response and Corrective Action	<p>The Program will realize the fiscal monitoring to sub-recipients corresponding to the fiscal year 2012-2013 as part of the current monitoring.</p> <p>Still in Process</p> <p>Implementation Date: June 2014</p> <p>Responsible: Mr. Gino Olivieri, Program Director</p>

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

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Fiscal Year: 2012-2013

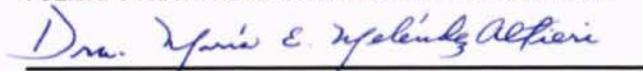
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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
2012-01 (FS)	Operating Deficit of General Fund (MW)	The Municipality closed its fiscal year ended June 30, 2012 with an accumulated deficit, before providing reserves in the general fund, of \$18,480,789. Also, the Municipality closed with an accumulated unassigned deficit of \$35,374,774. The Municipality's internal control relating to the budgeting function does not adequately prevent management from incurring expenditures in excess appropriated funds. In addition, the deficit was caused by the overstatement of estimated revenues and the incurrence of obligations without available credit in the budgetary accounts.	<p>The Municipality of Ponce has taken the following measurements to avoid future operational deficits at end of year and to reduce the accumulated deficit:</p> <ul style="list-style-type: none"> • Beginning on March 2013 a labor reduction policy was implemented consisting in reducing to all employees, two (2) labor days per month and 5% of reduction in the salaries for Department Directors and confidence personnel. • An early termination was declared to all appointment in the transitory and irregular service, except some 	None	Not resolved yet. See current finding number 2013-01.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2014

Date

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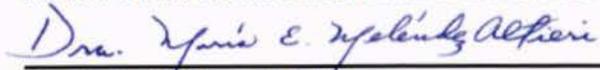
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>positions necessary to guarantee the continuity of public services.</p> <ul style="list-style-type: none"> •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

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Hon. Maria E. Meléndez Altieri, Mayor

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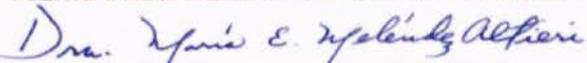
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			<p>2010. As a result of such measurement the Municipality saved \$505,145.53 in insurance policies applicable to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

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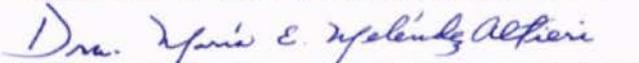
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>Opportunity”;</p> <p>b. Davis Bacon Act;</p> <p>c. Sections 103 and 107 of the Contract Work Hours & Safety Standard Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations;</p> <p>d. Granting access to GAO or other federally agency, to books, documents, etc.;</p> <p>e. Clean Air Act and Water Act;</p> <p>f. Energy Policy and Conservation Act;</p> <p>g. Retention of all required records for three years.</p>			
2012-06 Reporting (I) (MW)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	The Municipality's internal control over the preparation of federal financial reports is not effective. The Municipality is not ensuring that the Financial Summary Report (CO4PR26) submitted to the federal grantor contains accurate financial information. We examined the financial data within the 2011 Annual Performance and Evaluation Report submitted by	The Program will review and corroborate the information included in the consolidated annual performance report before submission to HUD. At year end, the accuracy and	None	Not resolved yet. See current finding number 2013-07.

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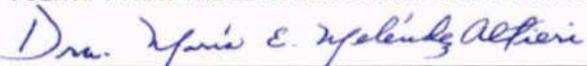
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			additional alternatives to decrease expenses and increase income in order to avoid deficits in the current and future budgets and to reduce the accumulated deficit.		
2011-01 (FS)	Operating Deficit of General Fund (MW)	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. 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.	See corrective action described in finding 2012-01	None	Not resolved yet. See current finding number 2013-01.
2012-02 (F/S)	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	Due to the difficult financial situation actually faced by the Municipality, the acquisition of a new mechanized accounting system or the updating of the	None	Not resolved yet. See current year finding number 2013-02.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT



Hon. Maria E. Meléndez Altieri, Mayor

March 31, 2014

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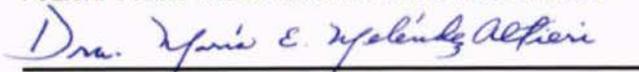
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation.	existing system has been postponed. However, in order to achieve an accounting system that provide updated and complete financial information, the Finance and Budget Director will assign a special committee to identify and write the adequate internal control and procedures necessary to maintain an accounting system containing information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.		
2011-02 (F/S)	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	See corrective action described in finding 2012-01	None	Not resolved yet. See current year finding number 2013-02.

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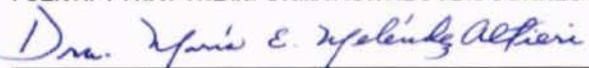
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		Department personnel use, spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation.			
2012-03-(FS)	Reconciliation Procedures – Federal Programs (MW)	The Municipality has not established internal controls to ensure the timely and accurate reconciliation of the accounting records maintained by program accountants with those maintained within the Municipality. Funds received from the U.S. Department of Housing and Urban Development for the Cluster – Community Development Block Grant – Entitlement, Cluster – Section 8 Housing Choice Vouchers and Home Investment Partnership Program and from U.S. Department of Health and Human Services for Cluster – Head Start Program, are managed by their own administrative personnel, which include their own accounting departments. Each maintains a separate set of accounting records kept on a double entry system. However, we noted that <i>none</i> of these departments or the Municipality's central accounting department, have established the necessary policies and procedures for the reconciliation of the transactions recorded in the Program's accounting records with those recorded within the Municipality's central accounting department.	The Finance and Budget Director Municipality will establish and implement policies and procedures for the reconciliation of the transactions recorded in the Federal Program's accounting records with those recorded in the municipal accounting department, in order to ensure that all federal financial reports are prepared based on the financial information once reconciled.	None	Not resolved yet. See current finding number 2013-03.

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March 31, 2014

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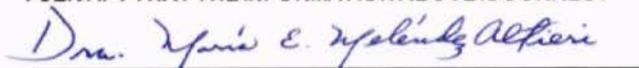
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		<p>This condition may cause not detecting or preventing errors or irregularities on a timely basis because there is no central oversight of all of the Municipality's financial operations. The Finance Director is currently placing reliance upon the accounting records maintained by each of the Programs without having any control procedure to detect inconsistent accounting treatments.</p> <p>The Municipality should be aware of its responsibility for administering the grants even though a separate fiscal unit or department is assigned the responsibility of administering the funds.</p>			
2012-04-(FS)	Municipal License Tax Revenues (MW)	Municipal license tax revenues of the fiscal year 2012-2013, which were collected in advance from taxpayers between January 1 thru June 30, 2012 (known in Spanish as "Patente en Suspense"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund during the fiscal year ended June 30, 2012. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2012-2013, and must not be used to pay obligations of the prior year.	With the implementation of corrective actions taken to the Finding 13-01, we expect to avoid or, at least, reduce the use of the license tax revenues collected in advance, in future fiscal years.	None	Not resolved yet. See current finding number 2013-04.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2014

Date

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

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

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Fiscal Year: 2012-2013

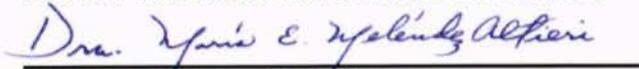
Principal Executive: Hon. María E. Meléndez Altieri, Mayor

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
2011-03-(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.	See corrective action described in finding 2012-01	None	Not resolved yet. See current finding number 2013-04.
2012-05 Cash Management (C) (I) (MW)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	The Municipality's internal control over compliance with the cash management requirements of federal program is not effective since it is not minimizing the time elapsed between the receipt and disbursement of funds. In our drawdown test over seventeen (17) fund requisitions, we noted the following exceptions: a) In seven (7) fund requisitions for \$340,103.54, we observed that the Municipality made the disbursements between seven (7) to eighteen (18)	The Program will coordinate with Municipal Finance Department to implement Corrective Action Plan. The plan will review and update policies and processes to reduce the time between the drawdown and payment of the funds. The cash management policies and operating	None	Not resolved yet. See current finding number 2013-06.

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Hon. María E. Meléndez Altieri, Mayor

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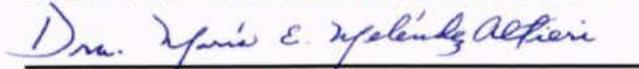
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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status										
		<p>days after the deposits;</p> <p>b) One (1) requisition of fund did not include the signature of the Program Officer who verified and approved the request.</p> <p>c) The bank reconciliations, shows average monthly cash balance of \$42,361 in the CDBG – Entitlement Bank Account. The cash balance shows a higher cash balance in the following months:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Month</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">November 2011</td> <td style="text-align: right;">\$ 96,877</td> </tr> <tr> <td style="text-align: center;">January 2012</td> <td style="text-align: right;">\$ 61,907</td> </tr> <tr> <td style="text-align: center;">April 2012</td> <td style="text-align: right;">\$ 50,491</td> </tr> <tr> <td style="text-align: center;">May 2012</td> <td style="text-align: right;">\$ 64,900</td> </tr> </tbody> </table>	Month	Amount	November 2011	\$ 96,877	January 2012	\$ 61,907	April 2012	\$ 50,491	May 2012	\$ 64,900	<p>procedures will be in writing and adopted as an internal control procedure in the Program. One of the key item of the procedure will be that no single individual will control a transaction from beginning to end. The manager of the accounting area of the Program will be responsible and accountable of the establishing of the procedure in combination with the Finance Director of the Municipality.</p>		
Month	Amount														
November 2011	\$ 96,877														
January 2012	\$ 61,907														
April 2012	\$ 50,491														
May 2012	\$ 64,900														
2011-04 Procurement and Suspension and Debarment (I) (MW)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	<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> <p>a. Executive Order 11246 "Equal Employment</p>	The Program Director will require to the Legal Services Office to instruct this Lawyers about the contract provisions required by the federal regulation.	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2011-2012 and 2012-2013.										

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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																				
		<p>the Municipality and we noted the following exceptions:</p> <table border="1"> <thead> <tr> <th>Line on Report</th> <th>Amount per Report</th> <th>Amount per Books</th> <th>Difference</th> </tr> </thead> <tbody> <tr> <td>Part II, Line 13 - Disbursed for 108 Repayments</td> <td>\$ 2,002,726.07</td> <td>\$ 2,045,791.63</td> <td>\$ (43,065.56)</td> </tr> <tr> <td>Part II, Line 15 - Total Expenditures</td> <td>6,286,870.74</td> <td>6,285,329.97</td> <td>1,540.77</td> </tr> <tr> <td>Part III, Line 31 - Total Public Service Obligation</td> <td>478,313.27</td> <td>402,145.60</td> <td>76,167.67</td> </tr> <tr> <td>Part III, Line 41 - Total Planning and Administration</td> <td>962,617.34</td> <td>1,057,966.65</td> <td>(95,349.31)</td> </tr> </tbody> </table> <p>In addition, the reports IDIS - PR02 shows an unreconciled difference of \$283,285.49 between the balances showed in the PR02 CDBG - Program year 2011 and available balance in the accounting records.</p>	Line on Report	Amount per Report	Amount per Books	Difference	Part II, Line 13 - Disbursed for 108 Repayments	\$ 2,002,726.07	\$ 2,045,791.63	\$ (43,065.56)	Part II, Line 15 - Total Expenditures	6,286,870.74	6,285,329.97	1,540.77	Part III, Line 31 - Total Public Service Obligation	478,313.27	402,145.60	76,167.67	Part III, Line 41 - Total Planning and Administration	962,617.34	1,057,966.65	(95,349.31)	<p>consistency of the Financial Status Report will be reviewed, the Program shall determine whether an adjustment to the IDIS Report (CO4PR26) is required. The review will included the identification of obligation pending payment, bank reconciliation and the comparison to the trial balance. This report will identify original appropriations, transfer, adjusted actions, obligations, disbursements, and balances for each activity. This will allow a continuous monitoring, together with the IDIS reports, of all activities registered in IDIS and the Finance Office. For the public service and administrative items the Program will explain any differences between the books and the CO4PR26 report.</p>		
Line on Report	Amount per Report	Amount per Books	Difference																						
Part II, Line 13 - Disbursed for 108 Repayments	\$ 2,002,726.07	\$ 2,045,791.63	\$ (43,065.56)																						
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Dra. María E. Meléndez Altieri
Hon. María E. Meléndez Altieri, Mayor

March 31, 2014

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Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		The above differences result from prior year adjustment not recorded on a timely basis in the accounting records of the Program and/or due to lack of reconciliation procedures between the books and financial reports submitted to the federal grantor.			
2012-07 Reporting (I) (MW)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	During our test over the reports submitted to the grantor agency, we found that the Municipality did not submit the required information regarding the Federal Funding Accountability and Transparency Act (FFATA) corresponding to fiscal year 2010-2011 and 2011-2012.	The Program will comply with FFATA reporting requirements for all first-tier subawards (subgrants and subcontracts) related to the CDBG program. A new procedure will be established delineating the thresholds, responsibilities of data collection and reporting. To correct the current situation, the Program will assign this project to one resource, who will be in charge of registering all the required information regarding the Federal Funding Accountability and Transparency Act (FFATA) not	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2012-2013.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Mrs. Maria E. Meléndez Altieri
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March 31, 2014

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2012-08 Sub-Recipient Monitoring (M)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	During our Sub-recipient Monitoring test, we found that the program did not comply with applicable requirements for fiscal monitoring to service provider's financial and accounting records.	The Program will prepare a monitoring plan to monitor CDBG activities including project undertaken by sub-recipients. The Plan will be included in the 2013-2014 Consolidated Plan. The Monitor plan will include: perform desk reviews for all open year grant projects funded under the CDBG program, field visits to monitor work in progress and completed projects, telephone or office conference assistance to grantees, preparation of reports, follow up on corrective actions.	None	Not resolved yet. See current finding number 2013-08.
2012-09 Davis Bacon Act (D)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban	During our Davis-Bacon Act test, we evaluated the only contract of construction (<i>Parque Ecológico Urbano</i>) during fiscal year 2010-2011. The following will summarize the exceptions noted:	As a corrective action the Program will prepare a new procedure to delineate the thresholds, responsibilities of data collection and reporting of	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2012-2013.

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

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

March 31, 2014

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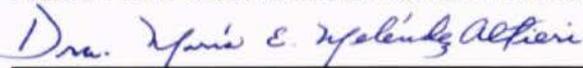
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			previously submitted.																										
2011-05 Reporting (I) (MW)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	<p>During our reporting test for the CDBG – Entitlement Grants Cluster, we identified the following conditions:</p> <p>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:</p> <p><u>CDBG- Entitlement & CDBG-R</u></p> <table border="1"> <thead> <tr> <th>Period ended on</th> <th>Cash disbursement per accounting records</th> <th>Cash disbursement per quarterly report</th> <th>Differences</th> </tr> </thead> <tbody> <tr> <td>9/30/10</td> <td>\$ 3,209,564.44</td> <td>\$3,165,677.46</td> <td>\$ (43,886.98)</td> </tr> <tr> <td>12/31/10</td> <td>559,791.42</td> <td>513,216.48</td> <td>(46,574.94)</td> </tr> <tr> <td>3/31/11</td> <td>987,368.09</td> <td>988,312.60</td> <td>944.51</td> </tr> <tr> <td>6/30/11</td> <td>1,342,559.11</td> <td>1,256,551.52</td> <td>(86,007.59)</td> </tr> <tr> <td></td> <td>\$ 6,099,283.06</td> <td>\$ 5,923,758.06</td> <td>\$ (175,525)</td> </tr> </tbody> </table>	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)	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.	None	Not resolved yet. See current finding number 2013-07.
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)																										
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