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, 2014

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

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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, 2014, 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.

Calle Parana 1650, El Cerezal, San Juan P.R. 00926-3144 - Tel (787) 777-5044 Fax (787) 764-2177

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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.

Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

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

Qualified Opinion on the Aggregate Discretely Presented Component Units

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the discretely presented component unit of the **Autonomous Municipality of Ponce,** as of and for the year ended June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Ponce**, as of and for the year ended as of June 30, 2014, and the respective changes in its financial position, for General Fund, Capital Projects Fund –Bond Issues, Debt Service Fund, Health and Human Services Grants, Workforce Investment Act Grants, Housing & Urban Development Grants and 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 **22** and Budgetary Comparison information on page **78**, 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.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2015, 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.

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.

López Vega, CPA, PSC.

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
April 17, 2015

Stamp No. 2705462 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

This discussion and analysis of the **Autonomous Municipality of Ponce** (the Municipality's) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2014. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. In addition, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2013. 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 2013-2014 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 2014 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 $476,135,078, which represents a decrease of 2% compared to prior fiscal year.

- At the end of fiscal year 2014, total liabilities amounted to $393,231,085. Out of said amount, $325,684,996 corresponded to long-term liabilities, of which $213,032,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which were paid from self-generated revenues.

- Total net position of the Municipality amounted to $82,903,993, which represents a decrease of 12% compared to prior fiscal year, as restated.

- Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to $150,744,939 derived from the following sources: $3,753,702 from fees, fines and charges for services; $35,830,758 from operating grants and contributions; $2,392,802 from capital grants and contributions, and $108,767,677 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 $162,421,725.

- As reflected in the Statement of Activities, the current fiscal year operations contributed to a decrease in the Net Position figure of $11,676,786, prior year decrease in Net Position amounted to $ 24,381,455.

FINANCIAL HIGHLIGHTS (CONTINUED)

- On this fiscal year, the Municipality's change in net position decreased less than previous year. At the close of the current fiscal year, the change in net position for the current year amounted to $(11,676,786) when compared with change in net position $(24,381,455) for previous year.

- At the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund deficit of $15,972,246.

- In the fund financial statements, the governmental funds revenue decreased $15,486,069 (or 10%); governmental funds expenditures decreased by $35,782,636 (or 17%).

- On a budgetary basis, the actual General Fund budgetary activities resulted in an unfavorable net change of $12,930,681.

- As the end of the current fiscal year, the Municipality's General Fund accumulated deficit amounted to $38,833,223 compared to a General Fund accumulated deficit of $36,280,976, in the prior fiscal year. The accumulated deficit increased by $2,552,247 when compared the prior fiscal year; increase in accumulated deficit for prior fiscal year amounted $20,475,187.

- The Municipality issued bonds and notes amounting to approximately $21,330,000 million to finance the improvements to "Ponce Servicio" Building and the acquisition of equipment for "Ponce's Convention Center".

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality the based on a government-wide view of such statements as well as a presentation of individual funds behavior during the fiscal year 2013-2014. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years' performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision-making process.

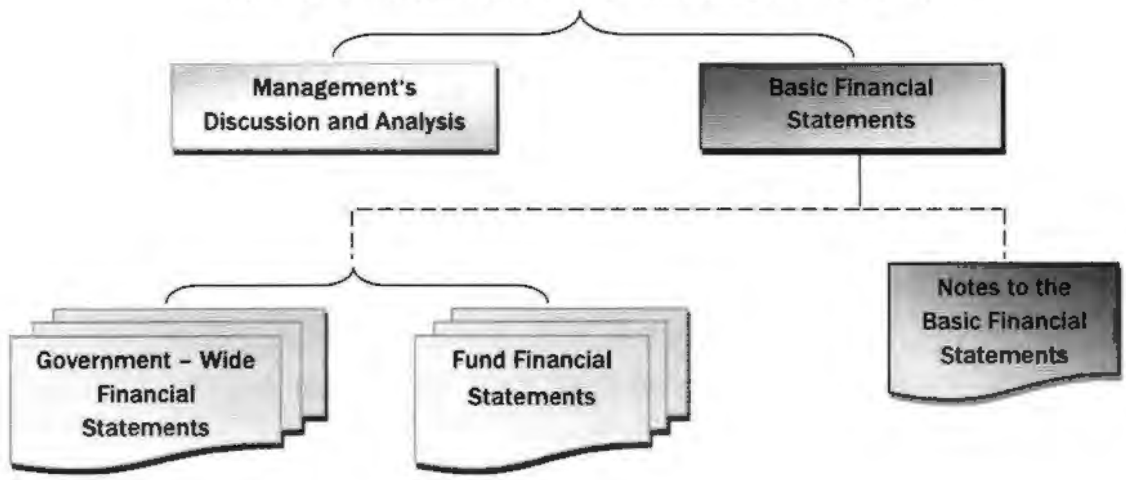
Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

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

FINANCIAL STATEMENTS COMPONENTS (continued)

COMPONENTS OF THE ANNUAL FINANCIAL STATEMENTS



Government-Wide Financial Statements

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

a. The *Statement of Net Position* presents information on all of the Municipality's assets and liabilities, with the balance between the two reported as *Net Position*. Over time, increases or decreases in net position can serve as an indicator of the Municipality's financial condition.

b. The *Statement of Activities* presents information showing how the Municipality's net position changed during the given fiscal year. In this statement, all changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only affect cash flows in future fiscal periods.

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

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

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

FINANCIAL STATEMENTS COMPONENTS (continued)

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 31 to 77 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 a 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 78 of this report.

FINANCIAL STATEMENTS COMPONENTS (continued)

Infrastructure Assets

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

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

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Government-wide Financial Analysis

Assets, liabilities and net position

Assets

As of June 30, 2014, the Municipality's total assets amounted to $476,135,078, a decrease of $10,941,377 when compared with the prior year as restarted. The assets exceeded its liabilities by $82,903,993.

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 2013-2014 include "Ponce's "Convention Center", construction of "Ciudad Deportiva", and resurfacing of streets and roads. The total costs of these projects are estimated in $9.9 million. Total capital projects still in process amount to $28,958,482. During the current fiscal year, the Municipality's total capital assets decreased by $4.2 million or 1% 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 2014, total liabilities amounted to $393,231,085. The current liabilities decreased by $735,409 and at the end of the current fiscal year, the Municipality had outstanding debt (bonds and notes) of $213,032,000. During the current fiscal year, the Municipality's long term liabilities increased by $4,006,365 or one (1) 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 $82,903,993 at the end of 2014, as compared to prior fiscal year, as restated. The following condensed Statements of Net Position of the Primary Government show on a comparative basis, the most important components of the $11,676,786 decrease reflected in the Net Position figure.

CONDENSED STATEMENTS OF NET POSITION

	2014	2013, as restarted	Change	%
ASSETS				
Current and other assets	$ 61,993,334	$ 68,657,469	$ (6,724,135)	-10%
Capital assets	414,201,744	418,418,986	(4,217,242)	-1%
Total assets	476,135,078	487,076,455	(10,941,377)	-2%
LIABILITIES				
Current and other liabilities	67,546,089	70,817,045	(3,270,956)	-5%
Long-term debt outstanding	325,684,996	321,678,631	4,006,365	1%
Total liabilities	393,231,085	392,495,676	735,409	.19%
NET POSITION:				
Net investment in capital assets	260,636,139	249,194,389	11,441,750	5%
Restricted for:				
Capital projects	4,892,093	16,000,019	(11,107,926)	-69%
Debt service	22,959,126	12,239,574	10,719,552	88%
Other purposes	6,856,383	15,337,188	(8,480,805)	-55%
Unrestricted	(212,439,748)	(198,190,391)	(14,249,357)	7%
Total net position	$ 82,903,993	$ 94,580,779	$ (11,676,786)	-12%

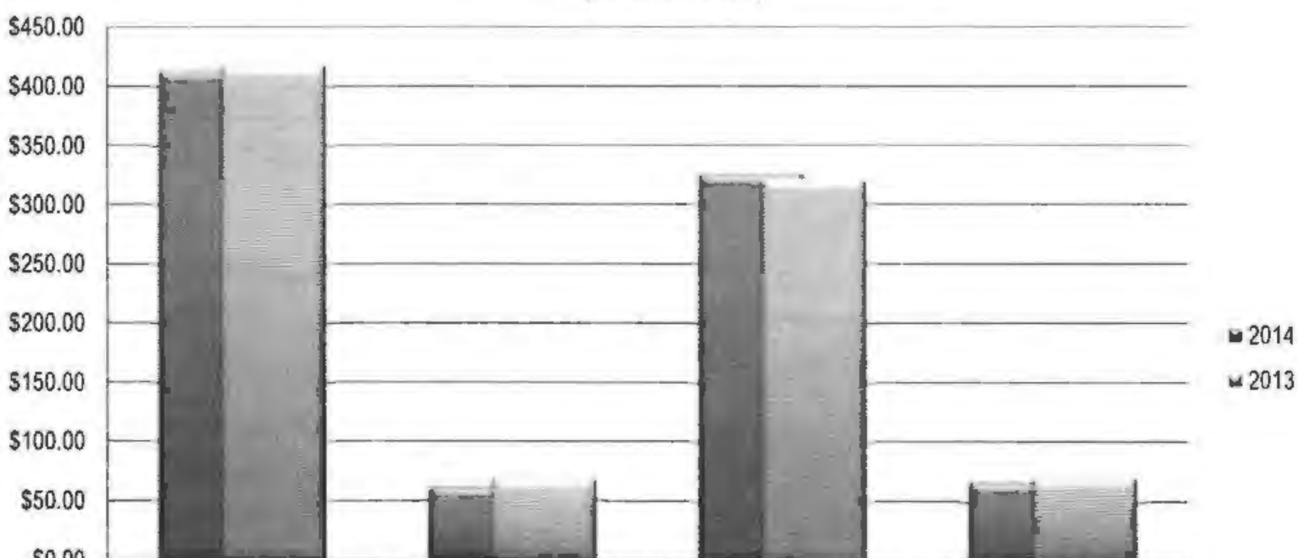
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

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

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

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

Components of Net Position
(In Millions)



	Capital assets	Current and other assets	Long-term debt outstanding	Current and other liabilities
2014	$414.201	$61.933	$325.684	$67.546
2013	$418.418	$68.657	$321.678	$70.817

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Changes in Net Position

The Municipality's net position decreased by $11,676,786. Approximately 56% of the Municipality's total revenue came from taxes, while 37% resulted from grants and contributions, including federal aid. Also, Fees, Fines and Charges for Services provided 3%. 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, 2014 and 2013, as restarted:

CONOENSEO STATEMENTS OF ACTIVITIES

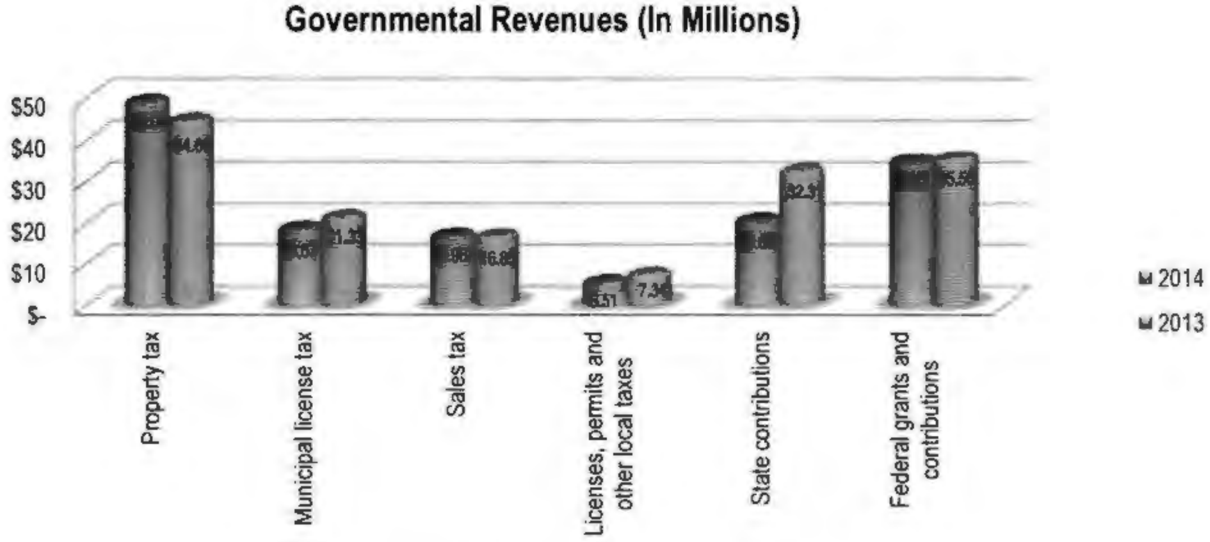
	2014	2013	Change	%
PROGRAM REVENUES:				
Fees, Fines and Charges for services	$ 3,753,702	$ 4,159,084	$ (405,382)	-10%
Operating grants and contributions	35,830,758	36,285,592	(454,834)	-1%
Capital grants and contributions	2,392,802	6,587,464	(4,194,662)	-64%
GENERAL REVENUES:				
Property taxes	47,928,169	44,668,949	3,259,220	7%
Municipal license tax	18,678,758	20,850,925	(2,827,833)	-10%
Sales tax	16,967,985	21,336,584	(4,368,599)	-20%
Licenses, permits and other local taxes	5,509,446	7,344,746	(1,835,300)	-25%
Grants and contributions not restricted to specific purpose	17,051,754	23,117,449	(6,065,695)	-26%
Interest	691,225	520,404	170,821	33%
Others	1,940,340	1,403,152	537,188	38%
Total revenues	150,744,939	166,274,349	(15,529,410)	-9%
EXPENSES:				
General government	58,329,709	59,539,101	(1,209,392)	-2%
Public safety	14,244,863	15,089,308	(844,445)	-6%
Public works	24,757,482	40,970,044	(16,212,562)	-40%
Culture and recreation	10,263,045	8,422,279	1,840,766	22%
Health and welfare	20,182,008	29,064,649	(8,882,641)	-31%
Urban development	9,127,159	6,331,680	2,795,479	44%
Education	14,466,869	19,840,080	(5,373,211)	-27%
Training and employment	2,280,453	2,997,642	(717,189)	-28%
Interest	8,770,137	8,401,021	369,116	4%
Total expenses	162,421,725	190,655,804	(36,313,003)	-19%
Change in net position	(11,676,786)	(24,381,455)	12,704,669	-52%
Net position, beginning of year, as restated	94,580,779	118,962,234	(24,381,455)	-20%
Net position, end of year	$ 82,903,993	$ 94,580,779	$ (11,676,786)	-4%

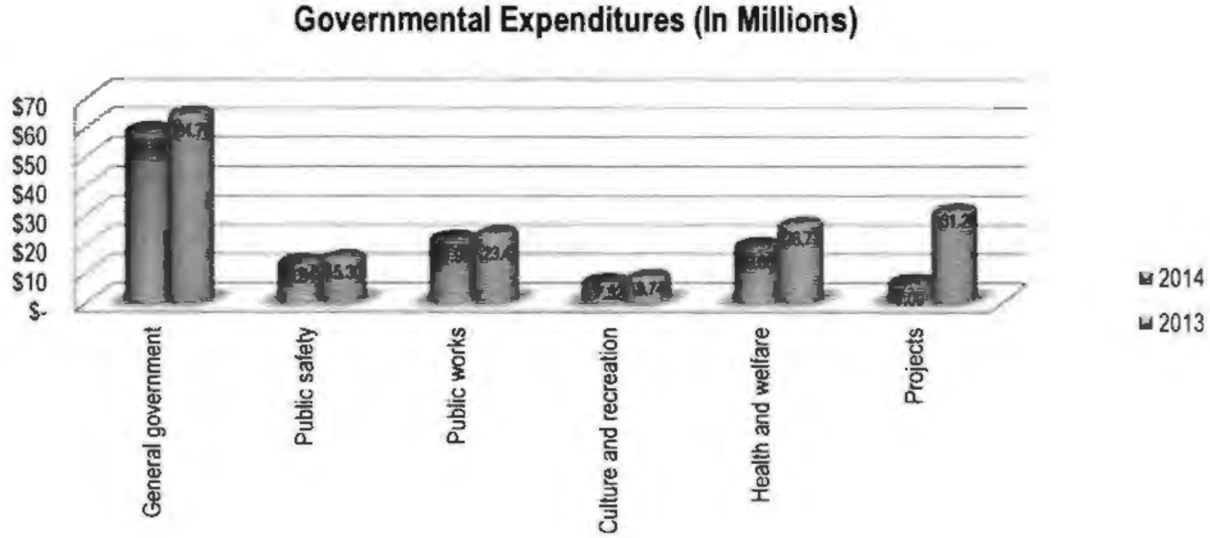
FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

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

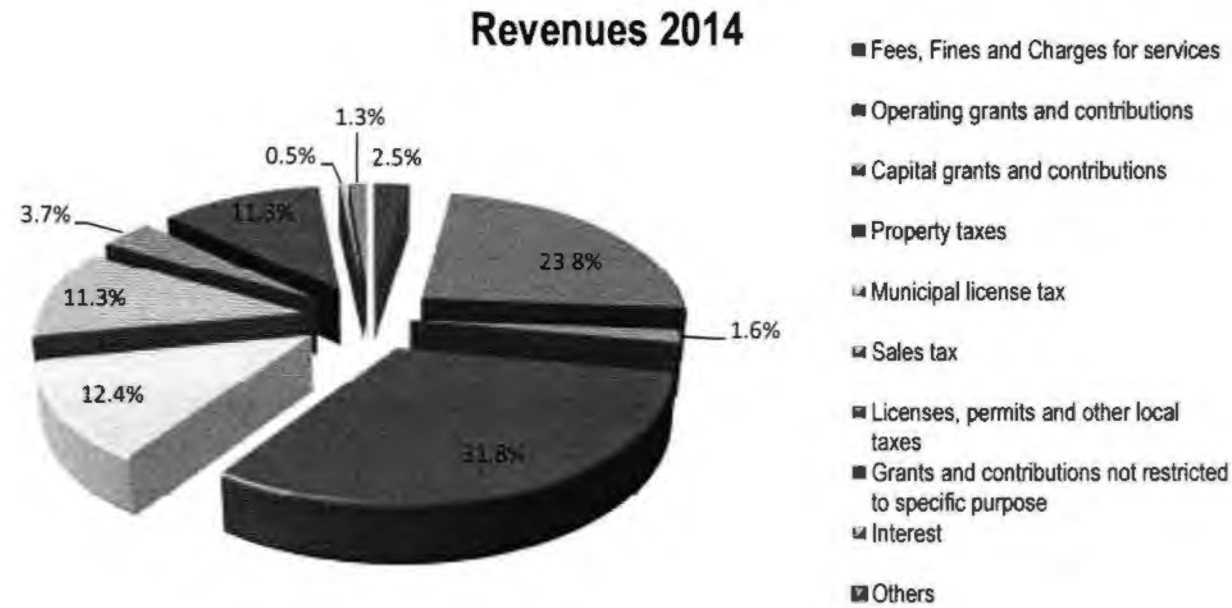
The following chart summarizes the Municipality's major revenues and major expenditures compared with the prior fiscal year.

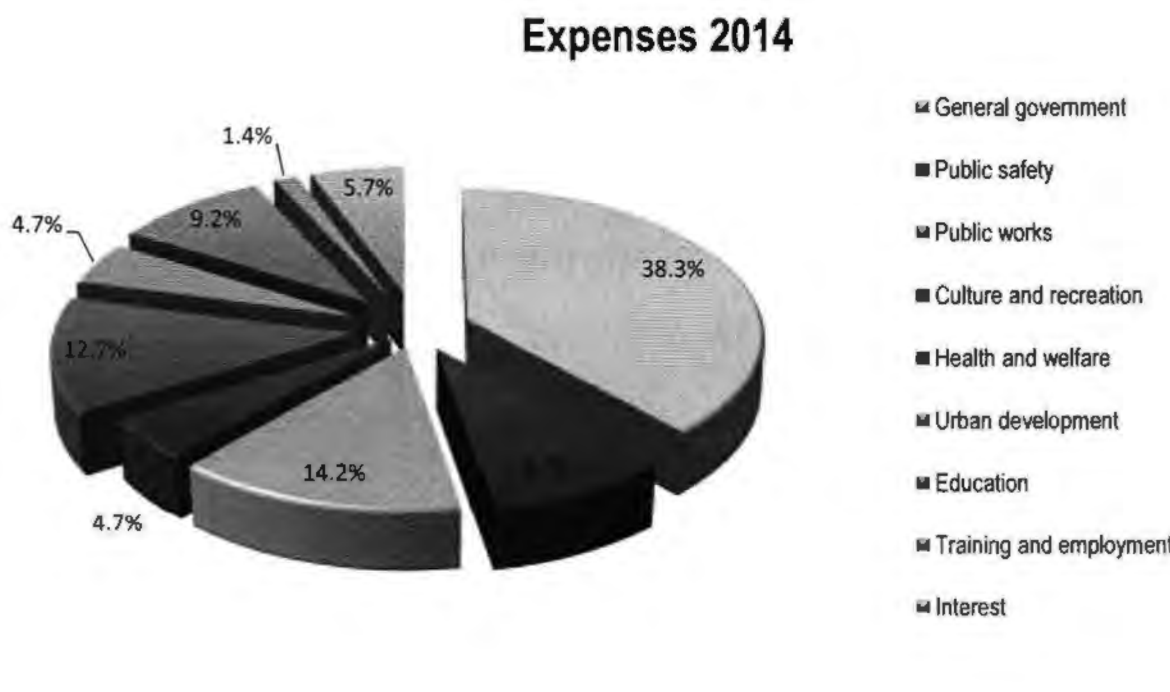




FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS (continued)

The following charts summarize the Municipality's revenues and expenses for the fiscal year ended June 30, 2014.





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

Fund Balances

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund deficit of $15,972,246, a increase of $6.6 million in comparison with the prior year. The combined fund deficit includes restricted fund balances amounting to $38.078 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 ($4.22 million) and 3) to pay for debt services ($11.78 million). There are committed fund balances amounting to $564,770 that can only be used pursuant to constraints formally imposed by the Municipal Legislature is ordinances and resolutions. Consequently, since there is an excess of restricted and committed fund balances over total fund balances, a negative unassigned fund deficit of $54.62 million was reported in the governmental funds at June 30, 2014.

Governmental funds include the General Fund, which is the main operating fund of the Municipality. As of June 30, 2014, the General Fund had an accumulated deficit of $38,833,233 compared with the prior fiscal year of $36,280,976.

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

Governmental funds also include the Debt Service Fund. The fund balance of the Debt Service Fund as of June 30, 2014 and 2013 amounted to $11.78 million and $14.56 million, respectively. The decrease of $2.7 million in the fund balance of the Debt Service Fund is the result of an increase in debt service requirements payments.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2013-2014, the Municipal Legislature approved an original budget for the General Fund of $106.7 million. During the year, there was no amendment to include any changes in revenues that were identified during the course of the fiscal year. The budgetary comparison schedule reflected a deficiency of $12.93 million of total current revenues under operating expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

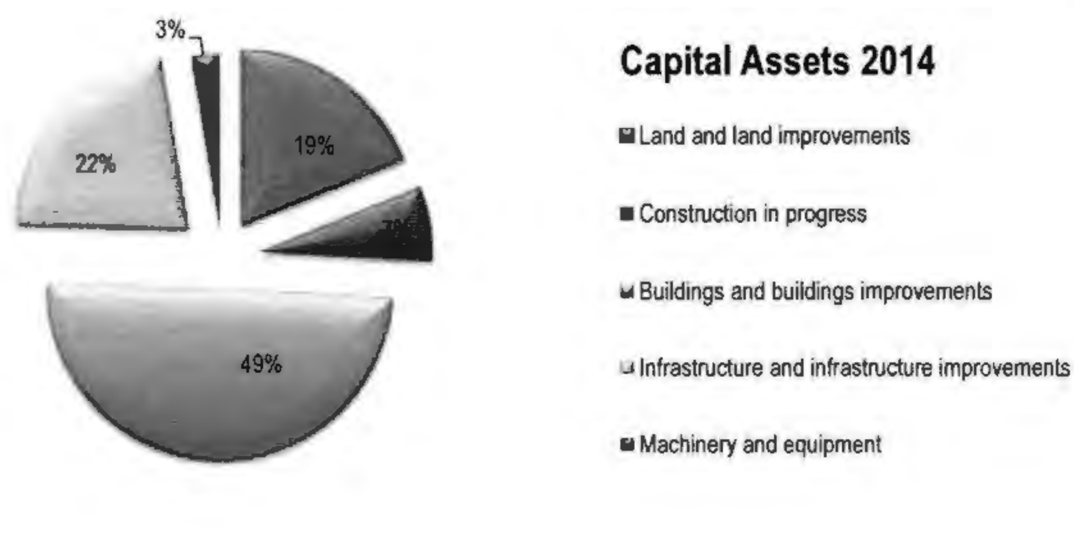
Capital Assets

The Municipality's investment in capital assets as of June 30, 2014, amounted to $534,921,248, which upon deduction of accumulated depreciation in the amount of $120,719,504 produced a net book value attributable to capital assets in the amount of $414,201,744. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. The total decrease in the Municipality's investment in capital assets for the current fiscal year represented approximately one percent (1%) of net book value. Depreciation charges for the year totaled $10,504,926.

The following chart summarizes the Municipality's capital assets for the fiscal years ended June 30, 2014 and 2013, as restarted:

Capital Assets
(Net of accumulated depreciation)

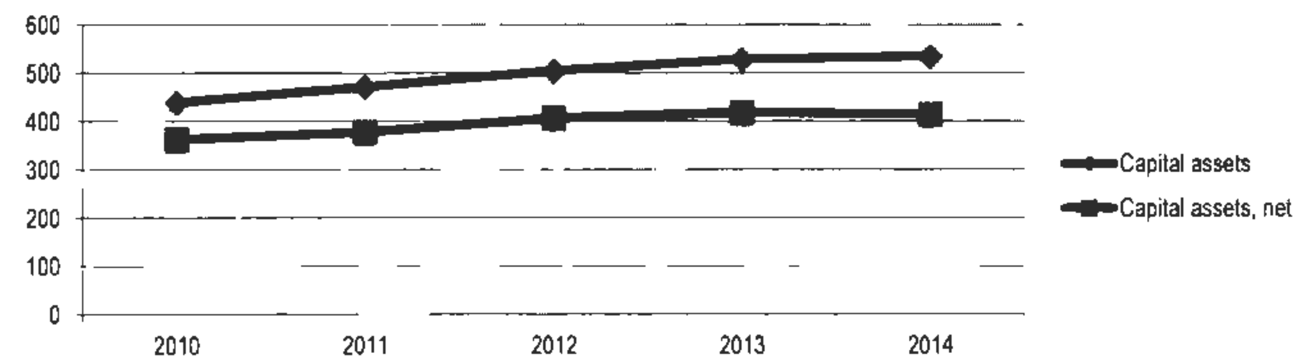
	Governmental Activities	
	2014	**2013, as restarted**
Land and improvements	$ 78,333,657	$ 79,052,059
Construction in progress	28,958,482	45,049,084
Buildings and buildings improvements	205,093,768	210,365,275
Infrastructure and infrastructure improvements	91,120,077	71,357,567
Machinery and equipment	10,695,760	12,595,001
Total	$ 414,201,744	$ 418,418,986



CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Capital Assets (continued)

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



Building, infrastructure and equipment increased by approximately $22.37 million. Detailed information about the Municipality's capital assets is presented in Note 12 to the basic financial statements.

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

Debt Administration

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt Administration (continued)

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

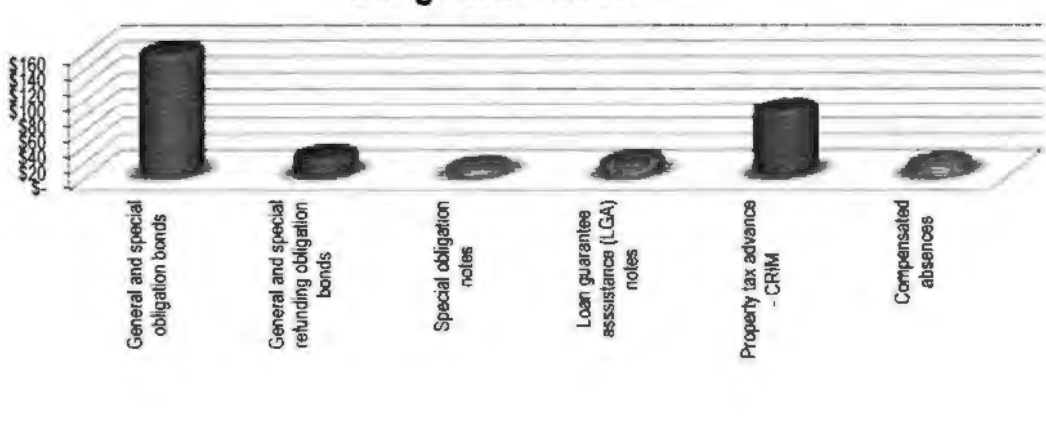
On June 30, 2014, the Municipality had $213 million in bonds, notes and other long-term debts outstanding, as compared to $203 million in prior year, an increase of $9.9 million, as shown in table below. The Municipality paid $11.40 million in principal and $8.4 million in interest on that debt during the year. During the fiscal period, the Municipality issued bonds through the Government Development Bank for Puerto Rico in the amount of $9.96 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 long-term debt for the fiscal years ended June 30, 2014 and 2013, as restarted:

Long Term Debt

	Governmental Activities	
	2014	2013, as restated
General and special obligation bonds and notes	$ 195,188,000	$ 183,666,000
Loan guarantee assistance notes	17,844,000	19,433,000
Non – revolving line of credit	-	7,671,847
Advances from CRIM	85,332,737	82,780,186
Other obligations	25,261,396	27,899,148
Interest due for accounts sold-CRIM	2,058,863	2,173,497
Total	$ 325,684,996	$ 323,623,678

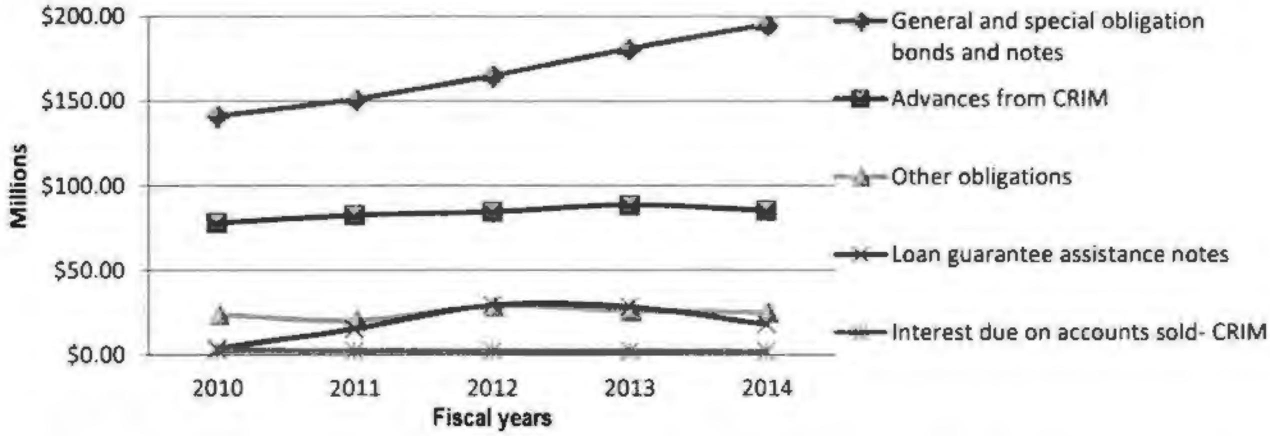
Long Term Debt 2014



CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt Administration (continued)

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



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

At June 30, 2014, the Municipality had $184 million of general obligation bonds outstanding. The following chart indicates the principal amortization of the Municipality's general obligation bonds in five-year increments.

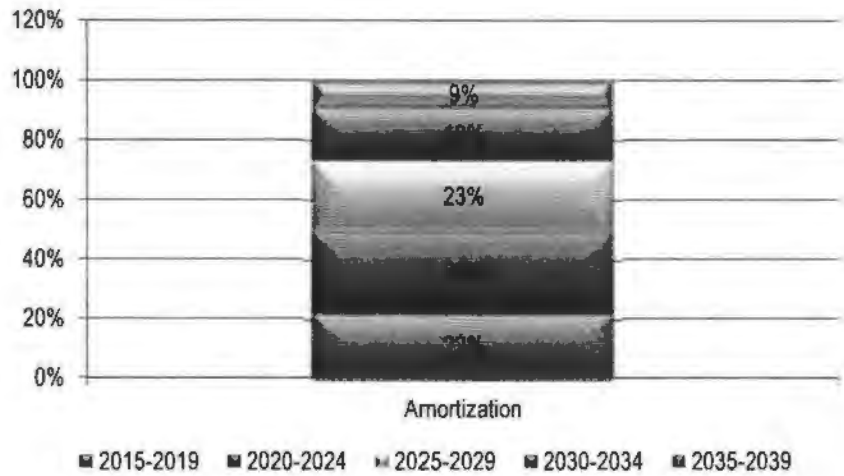
General and Special Obligation Bonds
Principal Amortization
In Five-Year Increments Following Fiscal Year 2014

Range of Years		Principal Amortization
2015-2019	$	40,781,000
2020-2024		50,833,000
2025-2029		43,174,000
2030-2034		33,091,000
2035-2039		16,318,000
Total	**$**	**184,197,000**

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt Administration (continued)

As can be seen in the following chart, approximately 73% 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 $28.83 million at June 30, 2014. Those notes payable were mainly issued for the acquisition, construction and improvement of capital assets.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Port of Ponce Authority

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (continued)

Implementation of Acts 18 and 19 of 2014

The dispositions established by Acts 18 and 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014 (see note 3). The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM). The Municipality of Ponce did not signed the agreement to be with COFIM.

For those municipalities that signed the agreement to be covered by these Acts, the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality. If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act No. 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be $65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincon) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

On the other hand, the Governing Board of COFIM has not established an implementation date for the remaining 62 municipalities. However, for those municipalities that voluntary decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014.

For those municipalities that want to be certified as collection agents for COFIM, the implementation date is January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's data base. . The Municipality of Ponce has been certified by COFIM as a collection agent and the implementation of the new collection system.

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. Federal and State grant revenues may vary if new grants are available and are subject to changes made by the federal government to related programs appropriation. The Municipality will prepare the budget for fiscal year 2014-2015 taking in consideration the trend in prior years revenues and adjust expenditures to the expected revenues.

	Governmental Activities	Component Units: Unaudited Port of Ponce	Component Units: Patronato
Assets			
Cash and cash equivalents	$ 2,508,407	$ 1,351,710	$ 388,972
Accounts receivable, net:			
Municipal license tax	321,790		
Sales tax	754,036		
Others	2,961,028	335,830	2,578
Inventories		168,059	28,228
Due from:			
Commonwealth Government	2,921,120		
Federal Government	7,031,768		
Restricted assets:			
Cash and cash equivalents	7,468,650		
Cash and cash equivalents with fiscal agents	37,966,535		
Capital assets:			
Land, improvements and construction in progress	81,949,339		
Other capital assets, net of depreciation	332,252,405	2,079,348	292,306
Total capital assets	414,201,744	2,079,348	292,306
Total assets	476,135,078	3,934,947	712,084
Liabilities			
Accounts payable and accrued liabilities	33,549,555	1,306,997	71,912
Due to Commonwealth Government	10,495,490		
Unearned revenues:			
Municipal license tax	15,880,051		
Federal grants	3,853,636		
Other	10,989	144,024	69,305
Accrued interest	3,756,368		
Noncurrent liabilities:			
Due within one year	16,441,905		3,019
Due in more than one year	309,243,091		
Total liabilities	393,231,085	1,451,021	144,236
Net Position			
Net investment in capital assets	260,636,139		
Restricted for:			
Capital projects	4,892,093		
Debt service	22,959,126		
Other purposes	6,856,383		
Unrestricted (deficit)	(212,439,748)	2,483,926	567,848
Total net position	$ 82,903,993	$ 2,483,926	$ 567,848

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government	Component Units	
Functions/Programs	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Unaudited Port of Ponce	Patronato
Primary Government							
General government	$ 58,329,709	$ 1,306,408	$ 174,569		$ (56,848,732)	$ 1,480,398	$ -
Public safety	14,244,863	1,014,363	1,582,953		(11,647,547)		
Public works	24,757,482	1,432,931		2,392,802	(20,931,749)		
Culture and recreation	10,263,045		46,561		(10,216,484)		
Health and welfare	20,182,008		15,226,965		(4,955,043)		
Urban development	9,127,159		5,164,558		(3,962,601)		
Education	14,466,869		11,715,514		(2,751,355)		
Training and employment	2,280,453		1,919,638		(360,815)		
Interest	8,770,137				(8,770,137)		
Total governmental activities	$ 162,421,725	$ 3,753,702	$ 35,830,758	$ 2,392,802	(120,444,463)	1,480,398	-
Component units							
"Port of Ponce"						1,615,083	
"Patronato"							1,141,861
Total Component Units	$ -	$ -	$ -	$ -	-	-	1,141,861
General revenues:							
Property taxes					47,928,169		
Municipal license tax					18,678,758		
Sales tax					16,967,985		
Licenses, permits and other local taxes					5,509,446		
Grants and contribution not restricted for specific purpose					17,051,754		500,458
Interest					691,225	1,331	890
Others					1,940,340	110,519	690,526
Total general revenues					108,767,677	111,850	1,191,874
Change in net position					(11,676,786)	111,850	50,013
Net position, beginning of year, as restated					94,580,779	2,372,076	517,835
Net position, end of year					$ 82,903,993	$ 2,483,926	$ 567,848

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

	General Fund	Capital Projects - Bond Issuances Fund	Debt Service Fund	Health and Human Services Grants Fund	Workforce Investment Act Grants Fund	Housing & Urban Development Grants Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	$ 2,426,811						$ 81,596	$ 2,508,407
Accounts receivable, net:								
Municipal licenses tax	321,790							321,790
Sales tax	754,036							754,036
Others	804,029			527,544		1,502,366	127,089	2,961,028
Due from:								
Commonwealth Government	2,468,254		214,287				238,579	2,921,120
Federal Government				551,644	1,213,616	2,839,314	2,427,194	7,031,768
Other funds						13,971	1,298,911	1,312,882
Restricted cash:								
Cash and cash equivalents	2,694,758		34,658	70,873		3,543,872	1,124,489	7,468,650
Cash and cash equivalents with fiscal agents	5,292,091	7,129,530	24,800,599				744,315	37,966,535
Total assets	$ 14,761,769	$ 7,129,530	$ 25,049,544	$ 1,150,061	$ 1,213,616	$ 7,899,523	$ 6,042,173	63,246,216

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

	General Fund	Capital Projects - Bond Issuances Fund	Debt Service Fund	Health and Human Services Grants Fund	Workforce Investment Act Grants Fund	Housing & Urban Development Grants Fund	Other Governmental Funds	Total Governmental Funds
Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit)								
Liabilities:								
Accounts payable and accrued liabilities	$ 25,217,100	$ 2,905,563		$ 711,910	$ 200,267	$ 3,065,626	$ 1,449,089	$ 33,549,555
Due to:								
Commonwealth Government	10,494,398					1,092		10,495,490
Other funds	1,137,963			174,919				1,312,882
Matured general obligations								
Bonds and notes			9,505,000					9,505,000
Accrued interest			3,756,368					3,756,368
Unearned revenues								
Municipal license tax	15,880,051							15,880,051
Federal grants					637,535	752,772	2,463,329	3,853,636
Others	10,989							10,989
Total liabilities	52,740,501	2,905,563	13,261,368	886,829	837,802	3,819,490	3,912,418	78,363,971
Deferred Inflows of Resources:								
Unavailable revenues - Commonwealth Government	678,192							678,192
Unavailable revenues - Others	176,299							176,299
Total deferred inflows of resources	854,491	-	-	-	-	-	-	854,491
Fund balances (deficit)								
Restricted	15,637,350	4,223,967	11,788,176	263,232	375,814	4,080,033	1,710,176	38,078,748
Committed	145,191						419,579	564,770
Unassigned	(54,615,764)							(54,615,764)
Total fund balances (deficit)	(38,833,223)	4,223,967	11,788,176	263,232	375,814	4,080,033	2,129,755	(15,972,246)
Total liabilities, deferred inflows of resources and fund balances (deficit)	$ 14,761,769	$ 7,129,530	$ 25,049,544	$ 1,150,061	$ 1,213,616	$ 7,899,523	$ 6,042,173	$ 63,246,216

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

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, 2014

	General Fund	Capital Projects - Bond Issuances Fund	Debt Service Fund	Health and Human Services Grants Fund	Workforce Investment Act Grants Fund	Housing & Urban Development Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Property taxes	$ 33,573,928		$ 15,467,373					$ 49,041,301
Municipal license taxes	18,678,758							18,678,758
Sales tax	14,523,988		2,443,997					16,967,985
Royalties and others	1,256,632							1,256,632
Licenses, permits and other local taxes	5,509,446							5,509,446
Charges for services and rents	1,306,408						474,897	1,781,305
Fines and forfeitures	539,466							539,466
Interest	113,557	465,988	16,498			53,655	41,527	691,225
Intergovernmental revenue:								
State Contributions	20,302,207						392,230	20,694,437
Federal grants and contributions				12,968,564	1,919,638	16,058,150	3,859,745	34,806,097
Others	1,454,899			4,155		284,826	119,383	1,863,263
Total revenues	97,259,289	465,988	17,927,868	12,972,719	1,919,638	16,396,631	4,887,782	151,829,915
Expenditures								
Current:								
General government	58,738,544					7,833	414,912	59,161,289
Public safety	12,915,119						920,079	13,835,198
Public works	21,524,898						442,777	21,967,675
Culture and recreation	7,315,426						8,264	7,323,690
Health and welfare	8,798,855			1,457,797		8,714,421	677,055	19,648,128
Urban development	1,688,988					5,010,467	520,761	7,220,216
Education	2,024,163			12,243,274				14,267,437
Training and employment	74,529				1,992,670		81,832	2,149,031
Capital outlays:								
Special Communities	316,771	120,995					114,611	552,377
Projects	1,749,228	4,952,583					387,428	7,089,239
Debt service:								
Principal		9,637,666	10,465,000					20,102,666
Interest		745,978	8,024,159					8,770,137
Total expenditures	115,146,521	15,457,222	18,489,159	13,701,071	1,992,670	13,732,721	3,567,719	182,087,083

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

	General Fund	Capital Projects - Bond Issuances Fund	Debt Service Fund	Health and Human Services Grants Fund	Workforce Investment Act Grants Fund	Housing & Urban Development Grants Fund	Other Governmental Funds	Total Governmental Funds
Excess (deficiency) of revenues over (under) expenditures	(17,887,232)	(14,991,234)	(561,291)	(728,352)	(73,032)	2,663,910	1,320,063	(30,257,168)
Other financing sources (uses)								
Transfers in	7,359,398		1,894,847	736,974	345,000	57,015	61,879	10,455,113
Transfers out	(3,095,715)	(354,284)	(4,111,939)			(2,258,992)	(634,183)	(10,455,113)
Issuance of repayment plan note payable - P.R. Department of Labor	1,062,315							1,062,315
Long-term debt issued	10,040,000	12,765,819					490,000	23,295,819
Bond issuance costs	(31,013)	(52,717)					(23,541)	(107,271)
Total other financing sources (uses)	15,334,985	12,358,818	(2,217,092)	736,974	345,000	(2,201,977)	(105,845)	24,250,863
Excess (deficiency) of revenues over expenditures and other financing sources	(2,552,247)	(2,632,416)	(2,778,383)	8,622	271,968	461,933	1,214,218	(6,006,305)
Fund balance (deficit), beginning	(36,280,976)	6,856,383	14,566,559	254,610	103,846	3,618,100	915,537	(9,965,941)
Fund balance (deficit), ending	$ (38,833,223)	$ 4,223,967	$ 11,788,176	$ 263,232	$ 375,814	$ 4,080,033	$ 2,129,755	$ (15,972,246)

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

Total Fund Balances (Deficit) - Governmental Funds		**$ (15,972,246)**
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:		
Non-depreciable capital assets	$ 81,949,339	
Depreciable capital assets	452,971,909	
Accumulated depreciation	(120,719,504)	
Total capital assets		414,201,744
Other assets are not available to pay current-period expenditures and, therefore are reported as deferred inflows of resources in the funds		
Due from Commonwealth Government:		
P.R. Department of Education - Office for the Improvement of Public Schools	56,684	
Christmas bonus reimbursement	621,508	
Others	176,299	854,491
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds. Those liabilities consist of:		
General and special obligation bonds and notes payable	203,527,000	
Property tax advances-CRIM	85,332,737	
Property tax debt	1,113,132	
U.S. Department of Health and Human Services - Questioned Costs 2005-2006 (Payment Plan)	152,768	
P.R. Aqueduct & Sewer Authority note payable	1,391,000	
Interest due for accounts sold-CRIM	2,058,863	
Puerto Rico Building Authority	3,592,129	
Claims and judgments	1,193,629	
Compensated Absences	15,477,335	
Christmas bonus payable	1,338,106	
P.R. Department of Labor repayment plan note payable	1,003,297	
Total long-term liabilities		(316,179,996)
Total net position of governmental activities		$ 82,903,993

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

Amounts reported for governmental activities in the Statement of Activities are different because:		**$ (6,006,305)**
Governmental funds report capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for capital assets	$ 6,210,607	
Less: current-year depreciation	(10,504,926)	(4,294,319)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Christmas bonus reimbursement (current year)	621,508	
P.R. Department of Education - Office for the Improvement of Publi Schools	56,684	
Donations of capital assets	77,077	
Others	176,299	931,568
Revenues reported in the funds that are not reported as revenues in the Statement of Activities:		
Property taxes (current year)	(1,113,132)	
Christmas bonus reimbursement (prior year)	(903,412)	(2,016,544)
Proceeds from general obligation bonds and notes are other financing sources in the governmental funds, but increase long-term liabilities in the Statement of Net Position		(21,330,000)
Proceeds from non-revolving line of credit are other financing sources in the governmental funds, but increase long-term liabilities in the Statement of Net Position		(1,965,819)
Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:		
Matured bonds and notes principal payments (net change)		657,000
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:		
General obligation bonds and notes	11,397,000	
Other long-term liabilities	18,303,102	29,700,102
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:		
Compensated absences	(2,360,544)	
Christmas bonus	(1,338,106)	
Claims and judgments	(38,953)	
Payable to the P.R. Department of Labor	(1,062,315)	
Property tax advances - CRIM (accrued interest)	(2,552,551)	(7,352,469)
Change in Net Position of Governmental Activities		(11,676,786)

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP).

A. Financial reporting entity

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

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

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

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

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

A. Financial reporting entity (continued)

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

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

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

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:

    - A financial benefit/ burden exist between the primary government and the entity or
    - Management of the primary government has operational responsibility for the primary government.

2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.

3. The component unit's debt is expected to be paid by the primary government.

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

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

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

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

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

A. Financial reporting entity (continued)

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

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

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

Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D.
(Patronato) El Vigía Street No. 17
Ponce, Puerto Rico 00730

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

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

Management's Discussion and Analysis

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

Basic financial statements

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

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

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

Government-wide Financial Statements (GWFS)

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

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

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

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

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

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

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

Fund Financial Statements (FFS)

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

The Municipality reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to financial statements

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

Required Supplementary Information (RSI)

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund as required by GASB.

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

C. Financial reporting presentation

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

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

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

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

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

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

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

D. Deposits and investments

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

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

E. Restricted assets

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

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

F. Receivables and due from governmental entities

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

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

G. Interfund receivables and payables

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

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

H. Inventories

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

I. Capital assets

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

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

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

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

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

I. Capital assets (continued)

Works of art and historical treasures- At June 30, 2014, the Municipality had the following works of art, historical treasures, and similar assets:

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

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

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

J. Deferred outflows/inflows of resources

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

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

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met –** Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

2. **Unavailable revenue reported under the modified-basis of accounting –** Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

K. Long-term obligations

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

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

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

L. Compensated absences

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

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

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

M. Claims and judgments

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

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

N. Net position

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

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

Restricted net position: The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

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

O. Net position flow assumption

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

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

P. Fund balances

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

Nonspendable: Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted: Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed: Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

Assigned: Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.

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

P. Fund balances (continued)

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: 1) such resources meet the other criteria for those classifications, as described above and 2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2014.

Q. Fund balance flow assumptions

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

R. Accounting for pension costs

The Municipality adopted the provisions of GASBS No. 50, Pension Disclosure, which amended GASBS No.27, Accounting for Pensions by State and Local Government Employers, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing define benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate.

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

R. Accounting for pension costs (continued)

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 and the basic financial statements of such retirement systems are part of the Commonwealth's financial reporting entity.

S. Interfund and intra-entity transactions

The Municipality has the following types of transactions among funds:

a. **Operating transfers -** Legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

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

T. Risk financing

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

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

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

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

T. Risk financing (continued)

The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks by each employee covered by law.

U. Use of Estimates

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

V. Future adoption of accounting pronouncements

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

1. **GASB Statement No. 68 "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).

2. **GASB Statement No. 69 "Government Combinations and Disposals of Government Operations."** The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).

3. **GASB Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees."** The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013 (fiscal year ended June 30, 2015).

4. **GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date."** The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 (fiscal year ended June 30, 2015).

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

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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 it's 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, 2014.

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, 2014, (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, 2014, 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, 2014, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of $250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized.

However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2014. Therefore, the Municipality's management has concluded that at June 30, 2014 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2014. 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).

Deposits – The Municipality's maintains balances of $4,426,811 in the General Fund, $34,658 in the Debt Service Fund, $70,873 in the Health and Human Services Grants, $199,443 in the Workforce Investments Act Grants, $3,543,872 in the Housing & Urban Development Grants and $1,124,489 on Others Funds. All balances are fully collateralized at June 30, 2014.

The deposits at GDB of $5,292,091 in the General Fund, $7,129,530 in the Capital Projects Fund, $24,800,599 in the Debt Service Fund and $744,315 in the Others Funds, are unsecured and uncollateralized, as no collateral is required to be carried by the Governmental Development Bank (GDB).

3. RECEIVABLES

A. *Municipal License Tax* - The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of $3,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2014, 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, 2014, net of allowance for uncollectible accounts.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as unearned revenues. The amount $321,790 represents municipal license taxes from the current and prior years that were not collected as of June 30, 2014.

B. *Sales tax* – The $754,036 sales tax receivable represents filed sales tax returns that were uncollected as of June 30, 2014, as described in Note 15.

4. DUE FROM GOVERNMENTAL ENTITIES:

A. Amounts due from governmental entities as of June 30, 2014 are as follows:

Commonwealth government:	**Amount**
PR Department of Land Administration	$ 806,273
PR Department of Justice "Ponce en Marcha"	740,287
PR Department of Treasury – Christmas Bonus	621,508
PR Emergency Management Agency - 911	225,000
Municipal Revenues Collection Center (CRIM)	214,287
PR Department of Justice	159,269
PR Department of Education – Office for the Improvement of Public Schools	56,684
PR Department of Labor Law 52	46,987
PR Department of Family	32,342
PR Department of Education	11,584
Others	6,899
Total due from commonwealth government	**$ 2,921,120**

Federal governments:	**Amount**
US Department of Housing and Urban Development - CDBG	$ 2,793,099
US Homeland Security	1,633,486
US Workforce Investment Act Grant	1,207,579
US Department of Justice	605,045
US Health and Human Services - Ryan White	312,622
US Health and Human Services - Head Start	238,036
Pass-through Commonwealth of Puerto Rico - Child and Adult Care Food Program	86,371
Pass-through Commonwealth of Puerto Rico - Bulletproof Best Partnership	85,829
US Department of Housing and Urban Development - Emergency Shelter	30,469
US Department of Housing and Urban Development - HOME	15,746
El Tuque Satellite Center	14,531
Others	8,955
Total due from federal government	**$ 7,031,768**

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

5. INTERFUND TRANSACTIONS

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

Interfund receivables and payables at June 30, 2014 are summarized as follows:

a. Due from/to other fund:

Fund	Receivable Fund	Payable Fund
General Fund	$ -	$ 1,137,963
Health and Human Services Grants Fund		174,919
Housing & Urban Development Grants Fund	13,971	
Others Governmental Funds	1,298,911	-
Total	$ 1,312,882	$ 1,312,882

b. Transfer in/out to other fund:

Following is a summary of interfund transfers for the year:

Originating Fund	Receiving Fund	Purpose	Amount
General Fund	Debt Service Fund	Transfer of funds to cover debt service payments	$ 1,894,847
General Fund	HHS Fund	Transfer of funds for to cover bonus and fringe benefits	736,974
General Fund	WIA Fund	Transfers of funds for cover payroll and fringe benefits	345,000
General Fund	HUD Fund	Transfers of funds for special funds outlays	57,015
General Fund	Others Funds	Transfers of funds for special funds outlays	61,879
Debt Service Fund	General Fund	Available in sinking fund for commitments	4,111,939
HUD Fund	General Fund	Transfers of funds to cover Section 108 – Loan Guarantee debt payments and reimbursable expenditures	2,258,992
Capital Projects –Bond Issuance Fund	General Fund	Transfer of funds for capital outlays	354,284
Others Fund	General Fund	Transfer funds for special projects	634,183
Total			$ 10,455,113

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014 are summarized as follows:

Funds	Accounts Payable	Accrued Liabilities	Total
General fund	$ 24,566,975	$ 650,125	$ 25,217,100
Capital projects fund	2,905,563		2,905,563
HHS program	600,819	111,091	711,910
WIA program	200,267		200,267
HUD program	2,840,988	224,638	3,065,626
Other governmental funds	1,331,726	117,363	1,449,089
Total accounts payable and accrued liabilities	**$ 32,446,338**	**$ 1,103,217**	**$ 33,549,555**

7. DUE TO GOVERNMENTAL ENTITIES

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

Governmental Entity	Amount
PR Retirement System Administration	$ 1,217,123
Puerto Rico Aqueduct and Sewer Authority	6,647,965
Commonwealth of Puerto Rico Employee Association	198,064
State Insurance Fund Corporation	1,091
Puerto Rico Buildings Authority	1,193,136
Department of the Family – Administration for Child Support (ASUME)	30,980
PR Department of Labor	898,890
PR General Services Administration	7,094
Puerto Rico Telephone Company	291,147
Others	10,000
Total	**$ 10,495,490**

8. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

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

	Commonwealth Government	Others
Major fund - General fund:		
P.R. Department of Treasury – Christmas bonus reimbursement	$ 621,508	$ -
P.R. Department of Education – Office for the Improvement of Public Schools	56,684	
Royalties and Others		176,299
	$ 678,192	**$ 176,299**

9. INTERGOVERNMENTAL REVENUES

Following is detail of intergovernmental revenues:

State agencies:	Amount
Puerto Rico Electric Power Authority	$ 13,362,127
Puerto Rico Department of Natural Resources	1,211,740
Subsidy and Lottery of Puerto Rico – CRIM	2,618,553
Reimbursement from the Commonwealth of Puerto Rico of Christmas bonus expenditures	1,295,218
Puerto Rico Legislative Joint Resolutions	336,030
School Infrastructure Development	631,904
Department of Public Housing	331,435
Department of Emergency Center -911	214,400
Others	693,030
Total governmental funds	**$ 20,694,437**

Federal agencies:	Amount
HHS – Head Start & Early	$ 11,373,347
HUD – Section 8 Choice Voucher	10,970,262
HUD – CDBG – Entitlement	2,315,705
Department of Labor – Workforce Investment Act	1,919,638
HHS – Ryan White	1,670,564
HUD – Emergency Shelter	248,920
Department of Agriculture – USDA	1,278,764
Department of Justice – Homeland Security	527,976
Department of Justice – Anti Gang Initiative	610,984
FEMA	613,223
HUD – Home Program	916,678
El Tuque Satellite Center	15,638
HUD – Municipal Bank (CDBG loans)	33,962
Others	2,360,036
Total governmental funds	**$ 34,806,097**

10. UNEARNED REVENUES

A. The amounts reported as unearned revenues as of June 30, 2014 are detailed as follows:

	Amount
Major fund – General fund:	
Municipal license taxes collected in the fiscal year 2013-2014 that correspond to the 2014-2015 fiscal year budget	**$ 15,880,051**

10. UNEARNED REVENUES(CONTINUED)

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

Program Description:	Amount
US Department of Homeland Security – Homeland Port Security	$ 2,116,944
US Department of Housing and Urban Development - HOME	709,590
US Department of Labor – Workforce Investment Act Grants Fund	637,535
US Department of Homeland Security – Disaster Recovery Assistance	205,110
US Department of Housing and Urban Development - Emergency Shelter	37,104
Others	147,353
Total	**$ 3,853,636**

C. Other amounts reported as unearned revenues as of June 30, 2014 are detailed as follows:

Program Description:	Amount
PR Department of Housing	$ 10,989
Total	**$ 10,989**

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11. FUND BALANCE (DEFICIT)

As of June 30 2014, 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	$ -	$ -	$ -	$ -	$ -	$ -	$ 13,392	$ 13,392
Public Safety							53,588	53,588
Public Works	8,188,452						464,455	8,652,907
Health and Welfare	132,014					2,817,111		2,949,125
Urban Development	2,776,702					1,262,922	254,542	4,294,166
Culture and Recreation	1,643,131							1,643,131
Education	2,671			263,232	375,814		53,398	695,115
Capital outlays:								
Special Communities	1,324,794							1,324,794
Projects	1,569,586	4,223,967					870,801	6,664,354
Debt Service			11,788,176					11,788,176
Committed:								
General Government	100,603						66,984	167,587
Culture and Recreation	44,588						352,595	397,183
Unassigned	(54,615,764)							(54,615,764)
Total Fund Balance (Deficit)	$ (38,833,223)	$ 4,223,967	$ 11,788,176	$ 263,232	$ 375,814	$ 4,080,033	$ 2,129,755	$ (15,972,246)

12. CAPITAL ASSETS

Capital assets, those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of $100 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2014, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance July 1, 2013 (as restated)	Additions	Reclassifications/ Retirements	Balance June 30, 2014
Capital assets, not being depreciated:				
Construction in progress	$ 45,049,084	$ 5,682,795	$ (21,773,397)	$ 28,958,482
Land	52,990,857			52,990,857
Total capital assets not being depreciated	98,039,941	5,682,795	(21,773,397)	81,949,339
Capital assets, being depreciated:				
Buildings and building improvements	255,714,016			255,714,016
Land improvements				
Site improvements	31,003,412			31,003,412
Infrastructure and infrastructure improvements	87,669,094	21,773,397		109,442,491
Machinery and equipment	56,207,101	604,889		56,811,990
Total capital assets being depreciated	430,593,623	22,378,286		452,971,909
Less accumulated depreciation for:				
Buildings and building improvements	(45,348,741)	(5,271,507)		(50,620,248)
Land improvements				
Site improvements	(4,942,210)	(718,402)		(5,660,612)
Infrastructure and infrastructure improvements	(16,311,527)	(2,010,887)		(18,322,414)
Machinery and equipment	(43,612,100)	(2,504,130)		(46,116,230)
Total accumulated depreciation	(110,214,578)	(10,504,926)		(120,719,504)
Total capital assets being depreciated, net	320,379,045	11,873,360		332,252,405
Governmental activities capital assets, net	**$ 418,418,986**	**$ 17,556,155**	**$ (21,773,397)**	**$ 414,201,744**

12. CAPITAL ASSETS (continued)

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

Governmental activities:	Amount
General government	$ 1,549,131
Public safety	560,173
Public works	3,324,038
Health and welfare	580,070
Culture and recreation	3,609,835
Urban development	56,733
Training and employment	131,422
Education	227,376
Urban Development	466,148
Total depreciation expense-governmental activities	**$ 10,504,926**

13. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014 was as follows:

Description	Beginning Balance, as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
General obligation bonds	$ 110,930,000	$ 20,840,000	$ (5,718,000)	$ 126,052,000	$ 6,100,000
General refunding obligation bonds	8,340,000		(330,000)	8,010,000	350,000
Special refunding obligations bonds	18,390,000		(960,000)	17,430,000	1,010,000
Special obligation bonds	9,445,000		(410,000)	9,035,000	440,000
Special obligation bonds – IVU	24,230,000		(560,000)	23,670,000	600,000
Special obligation notes – IVU	3,761,000		(520,000)	3,241,000	555,000
Special obligation notes	8,570,000	490,000	(1,310,000)	7,750,000	1,465,000
Special obligation notes – LGA	19,433,000		(1,589,000)	17,844,000	1,594,000
Non – revolving line of credit	7,671,847	1,965,819	(9,637,666)		
Property tax advances- CRIM	82,780,186	2,552,551		85,332,737	
Property tax debt- CRIM	1,526,108	1,113,132	(1,526,108)	1,113,132	
Interest due for accounts sold- CRIM	2,173,497		(114,634)	2,058,863	114,381
P.R. Aqueduct & Sewer Authority	2,675,000		(1,284,000)	1,391,000	1,284,000
US Department of Health & Human Services Questioned Costs 2005-2006	290,081		(137,313)	152,768	137,313
Puerto Rico Building Authority	3,652,129		(60,000)	3,592,129	120,000
Claims and judgments	1,320,676	38,953	(166,000)	1,193,629	
Compensated absences	16,490,108	2,360,544	(3,373,317)	15,477,335	980,000
Christmas bonus payable	1,945,046	1,338,106	(1,945,046)	1,338,106	1,338,106
PR Department of Labor – Payment plan	-	1,062,315	(59,018)	1,003,297	354,105
Total long-term debt	**$ 323,623,678**	**$ 31,761,420**	**$ (29,700,102)**	**$ 325,684,996**	**$ 16,441,905**

13. LONG-TERM LIABILITIES (continued)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessed property value located within the Municipality. Before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable and notes, are paid with unrestricted funds.

2. **Bonds Payable** - The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds $21,330,000 for capital improvements and payment of operating costs. Outstanding bonds payable at June 30, 2014 are as follows:

Description	Balance at June 30, 2014
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%	$ 22,420,000
2004 Special refunding obligation bond for payment of debt with an original amount of $13,200,000 due in installments of $250,000 to $950,000 through July 1, 2028, with interest ranging from 2.25% to 5.55%	9,950,000
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%	8,010,000
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%	10,195,000
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 %	7,480,000
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%	3,265,000
2004 Special obligation bond for operational expenses with an original amount of $8,015,000 due in installments of $150,000 to $575,000 through July 1, 2028, with interest ranging from 2.45% to 5.6%	5,770,000
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%	1,740,000

13. LONG-TERM LIABILITIES (continued)

Description	Balance at June 30, 2014
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%	$ 9,070,000
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%	5,869,000
2008 Special obligation bond for infrastructure construction with an original amount of $26,100,000 due in annual installments of $415,000 to $2,210,000 through July 1, 2032, with interest ranging of 5.4% to 7%	23,670,000
2010 General obligation bond for operational activities with an original amount of $15,860,000 due in installments of $235,000 to $1,330,000, through July 1, 2025, with interest ranging from 4.75% to 7.50%	14,815,000
2011 General obligation bond for construction of capital assets with an original amount of $3,095,000 due in installments of $45,000 to $260,000 through July 1, 2035, with interest ranging from 6% to 7.5%	2,945,000
2011 General obligation bond for the construction of a capital assets with an original amount of $665,000 due in installments of $10,000 to $60,000 through July 1, 2035, with interest ranging from 6% to 7.50%	635,000
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%	4,320,000
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%	12,435,000
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%	2,160,000
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%	12,653,000
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%	3,165,000
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%	710,000
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%	500,000
2013 General obligation bond for construction of a capital assets with an original amount of $1,615,000 due in installments of $35,000 to $145,000 through July 1, 2,032, with interest ranging from 6.00% to 7.50%	1,580,000

13. LONG-TERM LIABILITIES (continued)

Description	Balance at June 30, 2014
2014 General obligation bond for operational activities with an original amount of $10,040,000 due in installments of $145,000 to $840,000 through July 1, 2,038, with interest ranging from 6.00% to 7.50%	$ 10,040,000
2014 General obligation bond for construction of a capital assets with an original amount of $10,800,000 due in installments of $160,000 to $900,000 through July 1, 2,038, with interest ranging from 6.00% to 7.50%	10,800,000
Total	**$184,197,000**

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

Year Ending June 30,	Principal	Interest
2015	$ 8,500,000	$ 11,298,047
2016	7,345,000	11,241,690
2017	7,783,000	10,989,557
2018	8,292,000	10,546,858
2019	8,861,000	10,025,609
2020-2024	50,833,000	40,778,842
2025-2029	43,174,000	25,431,581
2030-2034	33,091,000	12,111,032
2035-2039	16,318,000	2,282,625
Total	**$ 184,197,000**	**$ 134,705,841**

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

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

Type of notes	Maturity Date	Original Amount	Range of Interest Rate	Balance at June 30, 2014
General obligation note 2010 series	7-1-16	435,000	6.0% to 7.50%	$ 215,000
General obligation note 2011 series	7-1-17	640,000	6.0% to 7.50%	400,000

13. LONG-TERM LIABILITIES (continued)

Type of notes	Maturity Date	Original Amount	Range of Interest Rate	Balance at June 30, 2014
General obligation note 2011 series	7-1-17	2,015,000	6.0% to 7.00%	1,275,000
General obligation note 2011 series	7-1-17	3,575,000	6.0% to 7.50%	2,265,000
General obligation note 2012 series	7-1-18	1,490,000	6.0% to 7.50%	1,140,000
General obligation note 2013 series	7-1-19	2,215,000	6.0% to 7.00%	1,965,000
General obligation note 2014 series	7-1-20	490,000	6.0% to 7.50%	490,000
General obligation note 2012 series-(IVU)	7-1-18	1,005,000	6.0% to 7.50%	765,000
General obligation note 2012 series-(IVU)	7-1-18	1,030,000	6.0% to 7.00%	790,000
General obligation note 2012 series-(IVU)	7-1-18	2,206,000	6.0% to 7.50%	1,686,000
Total notes payable				**$ 10,991,000**

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

Year Ending June 30,	Principal	Interest
2015	$ 2,020,000	$ 710,075
2016	2,170,000	570,124
2017	2,350,000	412,100
2018	2,440,000	236,550
2019	1,451,000	93,538
2020-2024	560,000	26,388
Total	**$ 10,991,000**	**$ 2,048,775**

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

   The notes, totaling $17,844,000 are payable in annual aggregate principal installments ranging from $1,044,000 to $1,624,000, plus interest rates, which fluctuate from 8.04% to 8.19%.

Type of notes	Maturity Date	Original Amount	Range of Interest Rate	Balance at June 30, 2014
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	7,824,000
Loan guarantee assistance (LGA) notes - Series 2008-A	8-1-15	3,845,000	8.04% to 8.19%	1,130,000
Total				**$ 17,844,000**

13. LONG-TERM LIABILITIES (continued)

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

Year Ending June 30,	Principal	Interest
2015	$ 1,594,000	$ 515,970
2016	1,624,000	471,148
2017	1,044,000	433,221
2018	1,044,000	404,146
2019	1,044,000	372,669
2020-2024	5,224,000	1,361,962
2025-2029	5,225,000	578,042
2030-2034	1,045,000	17,033
Total	**$ 17,844,000**	**$ 4,154,191**

5. **Non-revolving line of credit - restoration of the "Antigua Plaza del Mercado (Ponce Servicios)"** - The Municipality established a non-revolving line of credit with the Government Development Bank of Puerto Rico (GDB) as of May 9, 2011, for up to $10,000,000, plus interest, as defined in the GDB loan agreement with the Municipality. The line of credit was used to finance the restoration of the "Antigua Plaza del Mercado" building. 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%. During the 2013-2014 fiscal year, the total outstanding balance of line of credit of $9,637,666, plus accrued interest of 745,978, was cancelled with the issuance of the $10,800,000 general obligation bond.

6. **Property taxes debt-** This amount represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM) at June 30, 2014. The Municipality had to pay CRIM $50,884,204 plus a 6.5% yearly interest rate. The CRIM issued a settlement noting that the advances exceeded collections by $50 million plus interest at a 6.5% annual rate that amounts to $85,332,737. In the government-wide financial statements, the entire amount (principal plus interest) has been recognized as long-term debt. See note 17 commitments.

7. **Interest due for accounts sold – CRIM** - This amount represents the balance owed to the Municipal Revenue Collection Center ("CRIM") at June 30, 2014 as described in Note 12.

8. **P.R. Water and Sewer Authority note payable-** During fiscal year 2012-2013, the Municipality entered into a payment plan agreement with the Puerto Rico Aqueduct and Sewer Authority, for the payment of the Municipality's debt for water and sewer charges. The balance at June 30, 2014 of this agreement was $1,391,000.

9. **US Department of Health and Human Services – Questioned Costs 2005-2006 -** This amount represents the balance owed to the federal government, for questioned costs claimed for the program years 2005 through 2006. The balance of this debt will be from the operating funds of the Municipality.

10. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred. However, in the government-wide financial statements, the liability is recorded when due. The $1,193,627 reported corresponds to the outstanding balance of such debts as of June 30, 2014.

13. LONG-TERM LIABILITIES (continued)

11. **Compensated absences** - The government-wide statement of net position includes approximately $15.4 million of accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

12. **Christmas bonus** - represents the accrued portion corresponding to the fiscal year 2014 of the Christmas bonus to be paid in December 2014. The outstanding amount is $1,338,106.

13. **PR Department of Labor Payment Plan** - This amount represents the balance owed to the PR Department of Labor regarding a new repayment plan made during 2013-2014, for unemployment taxes debt incurred by the Municipality. The balance at June 30, 2014 of this agreement was $1,003,297.

14. **Property tax advances** – This amount represents the balance owed to the Municipal Revenue Collection Center (CRIM) at June 30, 2014. The outstanding amount is $1,113,132.

15. **PR Building Authority** – This amount represents the balance owed to the agency Puerto Rico Building Authority at June 30, 2014. The outstanding amount is $3,592,129.

14. PROPERTY TAXES

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

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

The composition is as follows:

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

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

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

14. PROPERTY TAXES (continued)

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

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the 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, 2014, presented as noncurrent liabilities in the government-wide financial statements amounted to approximately $85.3 million pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2014. See information regarding property tax claim made by the Municipality to CRIM in Note 12.

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.

15. SALES AND USE TAX

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.

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 on July 1, 2006. According to the Ordinance, these new resources were 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 July 4, 2006, the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax. On 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.

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

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

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

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. Effective January 1, 2011 the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050 the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

15. SALES AND USE TAX (CONTINUED)

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue $14,523,988 in the general fund corresponding to the 1% imposition and $2,443,997 in the Debt service fund corresponding to the Municipal Redemption Fund.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable of $754,036 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts.

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

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Act No. 18 and 19.

Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

Act No. 18 of January 24, 2014

The purpose of this Act is to create a special fund called Municipal Administration Fund (FAM) under custody of the Governmental Development Bank of Puerto Rico ("GDB") that permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds during a transitory period from February 1, 2014 to June 30, 2014, the Commonwealth will deposit $43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

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

15. SALES AND USE TAX (CONTINUED)

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

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

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

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

Act No. 19 of January 24, 2014

The purpose of this Act is to create the Municipal Finance Corporation (COFIM), a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

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

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

16. PENSION PLAN

A. Act No. 447 and System 2000 (until June 30, 2013)

As of June 30, 2014 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The system operates under Act 447, approved on May 15, 1951 effective on January 1, 1952 and Act 1 of February 16, 1990 for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of $200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Act No. 305 of September 24, 1999 amended Act. No. 447 of 1951 and Act 1 of February 16, 1990 to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan.

There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was $10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

The Act No. 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended.

16. PENSION PLAN (CONTINUED)

Plan members were required to contribute 5.775% of gross salary up to $6,600 plus 8.275% of gross salary in excess of $6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275%of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 11.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

B. Act No. 3 of 2013 (beginning July 1, 2013)

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing 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:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").

- 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 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act No. 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.

- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment).

- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.

- Increased employee contributions from 8.275% to a minimum of 10.00%.

16. PENSION PLAN (CONTINUED)

- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.

- Retirement age was modified as follows:

  ✓ Act No. 447 regular employees: age 58 to 61,

  ✓ Act No. 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,

  ✓ Act No. 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

- Due to changes to Special Laws (see note 14), the minimum monthly pension for current retirees was increased from $400 to $500.

- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of $5,000. Therefore, the maximum monthly employee contribution will be $12.50 ($5,000 x .25%).

- Survivor benefits were modified.

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

Fiscal year ended:	Law No. 447	System 2000	Law No. 3
2014	$ -	$ -	$ 3,631,503
2013	$ 1,607,688	$ 1,499,656	$ -
2012	$ 2,164,272	$ 2,027,251	$ -

16. PENSION PLAN (CONTINUED)

C. Act No. 32 of 2013 (beginning July 1, 2013)

On June 25, 2013, Act No. 32 was approved in order to amend Act No. 447 of 1957 by creating a new Article 5-117 Additional Uniform Contribution (AUC), with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

Act No. 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars ($140,000,000).

- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars ($1,000,000,000). If, for any fiscal, the certified AUD is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

For the fiscal year 2013-2014, $41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)). For the fiscal year ended June 30, 2014, the AUC subsidy received by the Municipality from OMB was $815,047, which partially subsidized the total contribution required of $1,389,488.

17. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 14, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from $600 to $200 (current retirees),
- Elimination of summer bonus of $100 (current retirees),
- No change in medical plan contribution of up to $1,200 and medicine bonus of $100 (current retirees).
- Eliminated all Special Law benefits to future retirees.

Act No. 3 also established that employers will contribute $2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees. For the fiscal year 2013-14, the postemployment benefits contribution amounted to $1,772,264.

18. COMMITMENTS AND CONTINGENCIES

A. Operating leases and construction commitments

The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the basic financial statements for the year ended June 30, 2014, amounted to approximately $1.6 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, 2014 of approximately $7.8 million for the construction, improvement, or renovation of several municipal facilities.

B. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2014, 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. COMMITMENTS AND CONTINGENCIES (CONTINUED)

C. Claims and lawsuits

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the advice of their legal counsel, that the probable claims against the Municipality not covered by insurance are in the amount of $1.2 million at June 30, 2014.

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

D. Other Commitments:

At June 30, 2014, the general fund had commitments of approximately $3.2 million for purchases orders or contracts that will be honored during the subsequent year.

19. CLOSURE AND POST CLOSURE CARE COSTS AND LANDFILL OBLIGATIONS

In accordance with Statement No. 18 of the "GASB", "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality obtained a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. As of June 30, 2014, the estimated remaining life of its landfill was approximately 5.5 years.

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

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

19. CLOSURE AND POST CLOSURE CARE COST AND LANDFILL OBLIGATIONS (continued)

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

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

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

20. RESTATEMENT OF NET POSITION

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	$ 94,594,664
Corrections of errors	
Understatement of Christmas Bonus debt	(1,041,634)
Understatement of Capital Assets – Construction in Progress	1,027,750
Net position, beginning, as restated	**$ 94,580,780**

21. SUBSEQUENT EVENTS

Implementation of Acts 18 and 19 of 2014

The dispositions established by Acts 18 and 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014 (see note 3). The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM).

For those municipalities that signed the agreement to be covered by these Acts (including the Municipality of Ponce), the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality.

If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act No. 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be $65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincon) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

On the other hand, the Governing Board of COFIM has not established an implementation date for the remaining 62 municipalities. However, for those municipalities that voluntary decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014.

21. SUBSEQUENT EVENTS (continued)

For those municipalities that want to be certified as collection agents for COFIM, the implementation date is January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's data base. The Municipality of Ponce has been certified by COFIM as a collection agent.

Port of Ponce Authority

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

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	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	$ 32,024,555	$ 32,024,555	$ 32,251,312	$ 226,757
Municipal license tax	23,049,259	23,049,259	19,258,435	(3,790,824)
Sales tax	19,099,198	19,099,198	14,272,340	(4,826,858)
Licenses, permits and other local taxes	7,296,509	7,296,509	3,093,306	(4,203,203)
Royalties and others	1,439,053	1,439,053	1,193,468	(245,585)
Charges for services	501,999	501,999	335,363	(166,636)
Intergovernmental – State Contributions	14,806,538	14,806,538	17,275,898	2,469,360
Fines and forfeiture	522,292	522,292	580,902	58,610
Rent of municipal property	971,781	971,781	715,811	(255,970)
Interest	104,067	104,067	2,125	(101,942)
Miscellaneous	6,917,245	6,917,245	5,179,004	(1,738,241)
Total revenues	106,732,496	106,732,496	94,157,964	(12,574,532)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	58,208,116	58,208,116	56,825,937	1,382,179
Public safety	12,952,156	12,952,156	12,570,164	381,992
Public works	17,700,651	17,700,651	20,290,912	(2,590,261)
Health and welfare	4,931,142	4,931,142	4,803,527	127,615
Culture and recreation	7,390,450	7,390,450	7,213,570	176,880
Economic development	2,234,053	2,234,053	2,214,802	19,251
Education	1,421,081	1,421,081	1,274,886	146,195
Operating transfer to Debt Service Fund	1,894,847	1,894,847	1,894,947	-
Total expenditures, encumbrances and other financing uses	106,732,496	106,732,496	107,088,645	(356,149)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)			$ (12,930,681)	$ (12,930,681)

Explanation of Differences:

Sources/inflows of resources:	
Actual amounts (budgetary basis)" available for appropriation" from the budgetary comparison schedule	$ 94,157,954
Differences-budget to USGAAP:	
Non-budgeted revenues and other financing resources	14,254,416
Loan proceeds, net of bond issuance cost	10,008,987
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)	$ 118,421,357
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 107,088,645
Differences-budget to USGAAP	
Non-budgeted expenditures	14,522,634
Prior year encumbrances recorded as current year expenditures for USGAAP basis	2,578,600
Current year encumbrances recorded as expenditures for budgetary purposes	(3,216,275)
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances (deficit)	$ 120,973,604

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule - General Fund is the budget ordinance at June 30, 2014 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2014.

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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	$ 969,002
Total U.S. Department of Agriculture			**969,002**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
CDBG – Entitlement Grants Cluster:			
Community Development Block Grant – Entitlement Program	14.218	N/A	3,874,879
Emergency Solutions Grants Program	14.231	N/A	307,483
Subtitle of Title IV –Vento Homeless Assistance (Shelter Plus)	14.238	N/A	518,187
Home Investment Partnerships Program	14.239	N/A	785,446
Section 8 Housing Choice Vouchers	14.871	N/A	10,501,199
Section 8 - Project- Based Cluster:			
Lower Income Housing Assistance Programs			
Section 8 - Moderate Rehabilitation I	14.856	N/A	49,014
Section 8 - Moderate Rehabilitation II	14.856	N/A	321,705
Total U.S. Department of Housing and Urban Development			**16,357,913**
U.S. DEPARTMENT OF LABOR			
Pass-through Programs:			
Commonwealth of Puerto Rico Department of Labor (Council of Occupational Development and Human Resources):			
Workforce Investment Act Cluster:			
Adult Program	17.258	Not Available	811,250
Youth Activities	17.259	Not Available	831,493
Dislocated Workers	17.260	Not Available	349,927
Total U.S. Department of Labor			**1,992,670**
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-through Commonwealth of Puerto Rico-Police Department			
State and Community Highway Safety Community Program	20.600	Not Available	79,507
Total U.S. Department of Transportation – (NHTSA)			**79,507**
U.S. DEPARTMENT OF ENERGY			
Direct Program:			
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	N/A	763,171
Total U.S. Department of Energy			**763,171**

Federal Grantor/ Pass-through Grantor/Program or cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
Administration for Children, Youth and Families			
Head Start Cluster:			
Head Start Program	93.600	N/A	12,270,986
HIV Emergency Relief Project Grants	93.914	N/A	1,430,085
Total U.S. Department of Health and Human Services			**13,701,071**
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through Commonwealth of Puerto Rico –Emergency Management Agency			
Disaster Recovery Assistance	97.036	FEMA 1798-DR-PR	135,464
Disaster Grants – Public Assistance	97.036	FEMA 1798-DR-PR	121,724
Pass-through Commonwealth of Puerto Rico – Department of Justice:			
Homeland Security Grant Program	97.067	2005-GE-T5-4009 2008-GE-T8-0001	24,433
Total U.S. Department of Homeland Security			**281,621**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 34,144,955**

1. BASIS OF PRESENTATION

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

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

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

Description	Health and Human Services Grants Fund	Workforce Investment Act Grants Fund	Housing and Urban Development Grant Fund	Other Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	$ 13,701,071	$ 1,992,670	$ 16,357,913	$ 2,093,301	$ 31,144,955
Minus amount recorded as expenditures under modified accrual basis for Section 8 HCV Program			(366,200)		(366,200)
Non-federal awards expenditures				2,108,601	2,108,601
Total expenditures, and transfers fund statements	$ 13,701,071	$ 1,992,670	$ 15,991,713	$ 4,201,902	$ 35,887,356

3. SUB-RECIPIENTS ENTITIES (FUNDS PROVIDED)

During the fiscal year ended June 30, 2014, the Municipality provided the following federal funds to sub recipient's entities:

HIV Emergency Relief Project Grants (93.914)	$ 537,244
Community Development Block Grant (CDBG) – Entitlement (14.218)	71,500
Total	$ 608,744

4. SECTION 108 LOAN PAYMENTS

For the fiscal year ended June 30, 2014, 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:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' 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, 2014, and the related notes to the financial statements, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated April 17, 2015.

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 **2014-001** thru **2014-004,** that we consider to be significant deficiencies.

Calle Parana #1656, El Cerezal, San Juan, P.R. 00926-3114 – Tel. (787) 777-8044 Fax (787) 764-9377

INDEPENDENT AUDITORS' 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* and which are described in the accompanying schedule of findings and questioned costs as itmes **2014-001, 2014-002 and 2014-004.**

We noted other matters that we reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated April 17, 2015.

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.

López Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
April 17, 2015

Stamp No. 2705463 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

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

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

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

Report on Compliance for Each Major Federal Program

We have audited the **Autonomous Municipality of Ponce's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Autonomous Municipality of Ponce's** major federal programs for the year ended June 30, 2014. 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.

Calle Paraná #1656, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 Fax (787) 764-4377

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

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

As described in items in **2014-006** thru **2014-011** in the accompanying schedule of findings and questioned costs the **Autonomous Municipality of Ponce** did not comply with requirements regarding **cash management, earmarking, and reporting** that are applicable to **Head Start Cluster [Head Start Program (CFDA No. 93.600)]** in findings number **2014-008** thru **2014-010**; and with requirements regarding **eligibility, and reporting** that are applicable to **Section 8 Housing Choice Voucher (CFDA No. 14.871)** in findings numbers **2014-006** and **2014-007.** Compliance with such requirements is necessary, in our opinion, for the **Autonomous Municipality of Ponce** to comply with the requirements applicable to those programs.

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

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the **Municipality of Ponce** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Head Start Program and Section 8 Housing Choice Voucher Program for the year ended June 30, 2014.

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, 2014.

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 **2014-007**, **2014-008** and **2014-010.** Our opinion on each major federal program is not modified with respect to these matters.

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 **2014-007**, **2014-008** and **2014-010** to be material weaknesses.

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

Report on Internal Control over Compliance (Continued)

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as items **2014-005, 2014-006, 2014-009** and **2014-011** 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 April 17, 2015.

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.

López Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
April 17, 2015

Stamp No. 2705464 of the Puerto Rico
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was affixed to the record copy of this report.

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	**Qualified for aggregate discretely presented component units, Unmodified for Fund Financial Statement and Government-Wide Fund Financial Statement**	
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 X	No

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
14.218	Community Development Block Grant – Entitlement Program Cluster
14.239	Home Investment Partnership Program
14.871	Section 8 Housing Choice Vouchers
	Workforce Investment Act Cluster:
17.258	Adult Program
17.259	Youth Activities
17.260	Dislocated Workers
93.600	Head Start Program Cluster
93.914	HIV Emergency Relief Project Grants

Dollar threshold used to distinguish Between Type A and Type B programs	$1,024,349	
Auditee qualified as low-risk auditee?	Yes	No X

Section II – Financial Statements Findings

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

Finding Reference	**2014-001**
Requirement	**Operating deficit of general fund**
Statement of Condition	The Municipality closed its fiscal year ended June 30, 2014 with a fund deficit, before providing reserves in the general fund, of $38,833,223. Also, the Municipality closed with an accumulated unassigned deficit of $54,615,764. The Municipality's internal control relating to the budgeting function does not adequately prevent management from incurring expenditures in excess appropriated funds. In addition, the deficit was caused by the overstatement of estimated revenues and the incurrence of obligations without available credit in the budgetary accounts.
Criteria	Article 8.004 (b) of Law 81 of Autonomous Municipalities establishes that the Municipality cannot obligate or spend funds in excess of the ensuing fiscal year. No amount shall be expended or obligated in a given fiscal year if exceeds its budgeted or authorized amounts by the Municipal Legislation. Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that special care must be taken to prepare the revenues estimates so these will not results in budget appropriations in excess of available resources.
Cause of Condition	This situation occurs because the Municipality is appropriating expenditures assuming the future collection of revenues using estimated tax collection provided by the Municipality Budgeting Division and the Municipal Revenue Collection Center. Therefore, the Municipality enters into purchases and contracts exceeding the actual taxes revenues earned and collected. The budgeting system does not reflect actual revenues and therefore cannot prevent the obligation of expenditures for which current resources will not be available. The overstatement of estimated revenues and the incurrence of obligations without available credit caused the Municipality to operate with a deficit.
Effect of Condition	The Municipality did not comply with the Article 7.011, Section (a), Article 8.004 (b) and Section 3 of the Revised Regulation over Basic Standards for Municipalities of Puerto Rico. The continued occurrence of this situation could result in possible significant limitations on available funds and eventual reduction or elimination of municipal services since future collection of revenues will need to be used to pay for accumulated liabilities.
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 **2014-001 (continued)**

Questioned Costs None

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

- Beginning in March 2013 a labor work period reduction policy was implemented consisting of reducing to all employees two (2) labor days per month and 5% of reduction in the salaries for Department Directors and other personnel in trust positions.

- 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 in February 2013, a reduction of 5% of the contract amount was established to all provider of 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 obtains its insurance policies directly from the insurance agencies as authorized by Law Number 63 approved on June 21, 2010. As a result of such decision, the Municipality saved $505,145.53 in insurance policies applicable to that fiscal year. On September 13, 2013 the Municipal Legislature authorized the Director of Finances and Budget, by means of the Resolution Number 23, Series 2013-2014 to make a credit transference in the effective budget for year 2013-2014, to increase by $505,145.53 the budgetary item "Deficit of Previous Years", which was used to amortize the accumulated deficit.

- In May 2014, the Municipal Legislature approved by means of the Municipal Ordinance Number 74, Series of 2013-2014, a new labor reduction policy of 3.5 hours to the employees of the regular or probatory service and to the transitory and irregular employees, whose wages are covered by the municipal general fund or with funds of the Work Force Investment Act Program (WIA). Also, a reduction of 10% of the monthly salary was approved for the Mayor, directors of the administrative units and the employees in trusted position of the executive branch. Simultaneously, the Municipal Legislature established a reduction of 5% of the monthly salaries applicable to its employees. Such labor period reduction policy began in July 2014.

- The municipal general budget for the fiscal year 2014-2015 was reduced in the amount of $12,180,730 in comparison with the prior year budget.

Section II – Financial Statements Findings

Finding Reference **2014-001 (continued)**

Management Response and Corrective Action

- The Municipal Financial Team is evaluating additional alternatives to decrease expenditures and increase revenues in order to avoid deficits in the current and future budgets and to reduce the accumulated deficit.

Status: Partially Corrected

Implementation Date: During Fiscal Year 2014-2015

Responsible Person: Mr. José D. Rivera Aponte, Finance and Budget Director

Section II – Financial Statements Findings

Finding Reference	**2014-002**
Requirement	**Financial Reporting – Accounting Records**
Statement of Condition	During our examination of the Municipality's accounting system, we noted that the accounting data still requires several reporting adjustment in order to present the Municipality's financial statements in the modified accrual basis of accounting and to produce the government-wide financial statements.
Criteria	Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Act, indicate that the accounting management system established in the Municipality should provide adequate and effective financial information for management decisions and in accordance with accounting principles general accepted in the United States of America and established by the Governmental Accounting Standard Board (GASB).
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting system.
Effect of Condition	The Municipality's accounting system does not provide updated and complete financial information that presents accurately its financial position. Also, the lack of training of the accounting personnel for the preparation of complex reports, i.e. annual financial statements could restrict the adequate response of management in financial public affair issues.
Recommendation	We recommend the Municipality implements internal control procedures in order to maintain an accounting system that contains all information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response and Corrective Action	As a measurement for achieving an accounting system that provides updated and complete financial information, the Finance and Budget Director will strengthen the existing internal control procedures related to the accounting system. The accounting department will be reorganized in order to assure the implantation of such control and procedures. In addition, the Municipality is in the process of preparation of a request for proposal to upgrade the financial and accounting software to improve accounting management reporting. This process is expected to be completed by the end of fiscal year 2014-2015.
Status:	Still in Process Implementation Date: June 2015 Responsible Person: Mr. José D. Rivera Aponte, Finance and Budget Director

Section II – Financial Statements Findings

Finding Reference **2014-003**

Requirement **Reconciliation Procedures – Federal Programs**

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

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

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

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

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 **2014-003 (continued)**

Effect of Condition The Municipality's accounting system did not provide updated and complete financial information that presents the financial position of the entity. Also, the lack of training of the accounting personnel for the preparation of complex reports, i.e. annual financial statements, could restrict the adequate response of management in financial public affair issues.

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

Questioned Costs None

Management Response and Corrective Action See finding 2014-002. The new system will include the federal programs.

Status: Still in process

Implementation Date: During Fiscal Year 2014-2015

Responsible Person: Mr. José D. Rivera Aponte, Finance and Budget Director

Section II – Financial Statements Findings

Finding Reference	**2014-004**
Requirement	**Municipal license tax revenues**
Statement of Condition	Municipal license tax revenues of the fiscal year 2014-2015, which were collected in advance from taxpayers between January 1 through June 30, 2014 (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, 2014. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2014-2015, and must not be used to pay obligations of the prior year.
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 Municipality prepares cash flows forecasts and projections to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of the current fiscal year.
Questioned Costs	None
Management Response and Corrective Action	With the implementation of corrective actions detailed in Finding 2014-001, 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 2014-2015 Responsible Person: Mr. José D. Rivera Aponte, Finance and Budget Director

Section III – Major Federal Award Program Findings and Questioned Costs

(All of the following findings are considered to be significant deficiencies in internal control. Those that are material weaknesses (MW) are labeled as such. A letter at the end of the finding title refers to the type of compliance requirement as per OMB A-133 Compliance Supplement.)

Finding Reference **2014-005**

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 programs is not effective since it is not minimizing the time elapsed between the receipt and disbursement of funds. In our drawdown test over twenty-seven (27) fund requisitions, we noted the following exceptions:

a. In six (6) fund requisitions in the total amount of $57,277.96, we observed that the Municipality made the disbursements between six (6) to three hundred and eighty-third (383) days after the deposits. The following table summarizes the situation noted:

Date of Requisition	Requisition Number	Amount of Disbursement	Days Elapsed
August 28, 2013	5600143	$ 244.78	383
		366.00	201
October 15, 2013	5623288	2,895.00	134
October 24, 2013	5620794	16,163.97	6
December 11, 2013	5636310	31,425.08	14
December 16, 2013	5637922	1,971.81	8
March 5, 2014	5664176	3,383.59	7

b. The bank reconciliations show an average monthly cash balance of $69,832.98 in the CDBG – Entitlement Bank Account. The cash account shows a higher balance in the following months:

Month	Amount
April 2014	$ 103,719.88
May 2014	$ 104,270.06
June 2014	$ 106,865.72

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-005 (continued)**

Criteria

24 CFR Subpart C, Section 85.20 (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 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.

24 CFR Subpart I, Section 570.489 (c), *Federal grant payments* – (1) *Payment.* 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.

Cause of Condition

The Municipality's disbursement procedures failed to assure that funds requested and received from the 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 due to an excess of 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

The Municipality implemented a procedure to minimize the time elapsed between the drawdown and disbursement of funds consisting in issuing the payments (checks) only when the requested funds are available in the bank account. The Program will continue in identifying procedures necessary to minimize the time elapsed between the drawdown and disbursement of funds and to minimize cash balances in bank account.

Status: Still in Process

Implementation Date: June 30, 2015

Responsible Person: Mr. Ian Carlo Serna, Program Director, Mr. Jose D. Rivera Aponte, Finance Department Director and Mr. Osvaldo Maldonado, Accounting Unit Director (Local Level)

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**2014-006**
Program	**Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development**
Requirement	**Eligibility (E)**

Statement of Condition

We performed an eligibility test and examined a sample of sixty (60) participant files. The following summarizes the deficiencies found:

a) In three (3) cases, the Family Report (Form HUD 50058) presents the following errors in HAP calculations:
   - In one (1) case, the Program deducted a medical allowance when it was not applicable, causing an overpayment to the participant of $234 during the fiscal year 2013-2014;
   - In one (1) case, the participant's income was duplicated creating an underpayment to the participant's HAP;
   - In one (1) case, the participant's income calculation was overstated causing errors in the HAP calculation.

b) In one (1) case, evidence of the authorization of the participant for the PHA submission of third-party verification was not identified in the file.

c) In two (2) cases, the participant's Privacy Act Notice did not contain the date when it was signed.

d) In two (2) cases, the following situation was noted related with the Enterprise Income Verification (EIV):
   - The EIV form was completed sixty (60) days after the admission of these participants.

e) In twelve (12) cases, the reasonable rent determination was performed after the submission of the Family Report. Also, in one (1) case the reasonable rent determination was not identified in the file.

f) In one (1) case, the following situation was noted related to the Inspection Checklist (Form HUD-52580):
   - The form was not marked as pass or fail.

Criteria

24 CFR section 982.516 (a) (2) states that the PHA must obtain and document in the tenant file third-party verification of the following factors, or document in the tenant file why third party verification was not available: (i) Reported family annual income; (ii) the value of assets; (iii) Expenses related to deductions from annual income; and (iv) Other factors that affect the determination of adjusted income. Also, 24 CFR Sub-part B, 5.212 Compliance with the Privacy Act, states the following: (a) Compliance with the Privacy Act: The collection, maintenance, use, and dissemination of SSNs, EINs, any information derived from SSNs and Employer Identification Numbers (EINs), and income information under this subpart shall be conducted, to the extent applicable, in compliance with the Privacy Act (5 U.S.C. 552a) and all other provisions of Federal, State, and local law. (b) Privacy Act notice.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**2014-006 (Continued)**
Criteria.	In addition, Code of Federal Regulations 24, Section 5.233 (a) (2), states that processing entities must use HUD's EIV system as a third-party source to verify tenant employment and income information, in accordance with §5.236. 24 CFR Sub-part G – Rent to Owner §983.303 Reasonable rent state that (b) *Redetermination*. The PHA must re-determine the reasonable rent: (1) Whenever there is a five percent or greater decrease in the published FMR in effect 60 days before the contract anniversary (for the unit sizes specified in the HAP contract) as compared with the FMR in effect one year before the contract anniversary; (2) Whenever the PHA approves a change in the allocation of responsibility for utilities between the owner and the tenant; (3) Whenever the HAP contract is amended to substitute a different contract unit in the same building or project; and (4) Whenever there is any other change that may substantially affect the reasonable rent. 24 CFR 982.401 Housing Quality Standards (a) (3) states that all program housing must meet the HQS performance requirements both at commencement of assisted occupancy and throughout the assisted tenancy.
Cause of Condition	The Program has no effective monitoring review process for the Program's internal quality control.
Effect of Condition	The Program is not in compliance with 24 CFR section 982.516 (a) (2), 24 CFR Sub-part B, 5.212, Code of Federal Regulations 24, Section 5.233 (a) (2) and 24 CFR 982.401 Housing Quality Standards (a) (3)
Recommendation	The Program should strengthen its internal quality control procedures to monitor performance, ensure compliance with these requirements and provide the necessary training to the staff on documentation and verification process.
Questioned Costs	None

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-006 (Continued)**

Management Response and Corrective Action

The Program will provide additional training to the technical personnel on documentation and verification processes. Also, the Program's Supervisor implemented procedures to monitor the performance in the technical area.

Implementation Date: April 1, 2015

Responsible Person: Mr. Jason Vega, Program Supervisor

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-007**

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 During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers Program did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.

The Section 8 Housing Vouchers Program accounting records are not designed to provide information necessary for the preparation of the Financial Status, Supplemental Reports and Financial Data Schedule (FDS) in accordance with compliance requirements. The accounting system does not summarize the transactions in a formal chart of accounts in order to properly record and account for the transactions of all reports required by the Program.

Criteria 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.

24 CFR Subpart D Section 982.158 (a), establishes that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms or record-keeping. The must comply with the financial reporting requirement in 24 CFR part 5, subpart K.

Cause of Condition 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.

Effect of Condition The Program's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions. In additions, the Program's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-007 (continued)**

Recommendation

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

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

Questioned Costs None

Management Response and Corrective Action

As indicated in response to Finding 2014-003, the Finance and Budget Department will evaluate the Program's accounting system in order to identify the necessary procedures for the monthly reconciliation of the transactions recorded in the federal program's accounting records with those recorded in the municipal accounting department. This evaluation will permit to identify and implement internal procedures to reconcile the federal funds reports with the program's accounting records in order to produce reliable financial data. In addition, the Municipality is in the process of preparation of a request for proposal to upgrade the financial and accounting software to improve accounting management reporting. This process is expected to be completed by the end of fiscal year 2014-2015.

The Program will continue the implementation of the MIP System.

Status:

Still in Process

Implementation Date: May 2015

Responsible Person: Mr. José D. Rivera Aponte, Finance and Budget Director, Mr. Ian Carlo Serna, Program Director and Mr. Jason Vega, Program Supervisor.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-008**

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

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

Statement of Condition We performed a Cash Management Test and examined thirty six (36) fund requisitions made during the program year ended on June 30, 2014. Also, we verified the bank statements and cash reconciliations for that period. The following summarizes the situations found:

a) We could not identify the disbursements of six (6) requisitions of funds. Also, three (3) requisitions were issued without supporting documents. The actual results were not reconciled to ensure that the fund requisition was consistent with realistic cash needs.

b) The disbursements related to (five) 5 requisitions of funds were made between 4 to 10 days after the deposits were made.

c) The bank reconciliations show an average monthly cash balance of $46,213 in the Head Start Bank Account. The cash balance shows a higher reconciled balance in the following months:

Month	Adjusted Bank Cash Balance per Reconciliation
Aug-13	80,517.21
Sep-13	88,931.97
Oct-13	101,509.89
Nov-13	89,874.29

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

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-008 (continued)**

Criteria (continued)

45 CFR Part 92, Subpart C, Section 92.20 (b) (7), Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

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

Cause of Condition The Program did not maintain effective internal control over cash management procedures in order to monitor the cash balance, and ensure 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 Program staff 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.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-008 (continued)**

Questioned Costs None

Management Response and Corrective Action The Finance and Budget Department will establish procedures to ensure that each fund request contain the corresponding supporting documents and to identify the disbursements that match to each requisition of fund.

Also, the Program has established a procedure to improve its cash management, which permits a more effective control over cash in the bank account.

Status: Still in Process

Implementation Date: April 2015

Responsible Person: Mr. José León Gaud, Fiscal Officer and Mr. Jose D, Rivera Aponte, Finance and Budget Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**2014-009**
Program	**Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services**
Requirement	**Earmarking – Administrative Cost Limits (G)**
Statement of Condition	During our audit procedures we noted that the accounting system maintained by the Head Start Program did not provide for the classification and recording of financial transactions between administrative and programmatic expenditures. Alternate procedures were used by the Program's staff to compute compliance with the fifteen percent (15%) administrative costs limit.
Criteria	45 CFR, Subpart C, Section 92.20 (a) (2) states that the sub grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.
Cause of Condition	The Program's accounting records did not provide a chart of accounts to individually account programmatic and administrative expenditures.
Effect of Condition	The Program is not in compliance with 45 CFR, Subpart C.
Recommendation	We recommend Management modifies the accounting system's chart of accounts to create a separate account for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion.
Questioned Costs	None
Management Response and Corrective Action	See finding 2014-002. The new system will provide for the issuance of separate reports for both type of expenditure; administrative and programmatic.
Status:	Partially Corrected Implementation Date: Fiscal year 2014-2015 Responsible Person: Mr. José León Gaud, Fiscal Officer

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-010**

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

Requirement **Accounting Records (MW)**

Statement of Condition During our audit, we noted that the Program's staff did not maintain an adequate set of accounting records for the Head Start Program to fairly present the financial position of the program and results of its operations. The financial information reported in the financial reporting is based on accounting information compiled from different sources and not from a complete set of accounting records, resulting in errors in the amounts reported in the Federal Financial Report (Standard Form 425) submitted during program year.

Criteria 45 CFR Part 92. Subpart C. Section 92.20 (a) (1) and (2) and (b) (1) and (2), *Standards for Financial Management Systems*, establishes that fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors, must be sufficient to: permit preparation of reports required by this part and the statutes authorizing the grant; and 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. The financial management system of other grantees and sub-grantees must meet the following standards:

- *Financial reporting*: Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant.
- *Accounting records:* Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Cause of Condition Adequate internal controls and proper monitoring procedures do not exist to ensure the maintenance of a complete set of accounting records as required by the Program's regulations and grant agreement. Also, proper monitoring procedures do not exist for the information reported in the Federal Financial Report (SF-425).

Effect of Condition The Program is not in compliance with the 45 CFR Part 92, Subpart C, Section 92.20 (a) (1) and (2) and (b) (1) and (2), *Standards for Financial Management Systems*.

Recommendation Management should take necessary steps to establish and maintaining proper internal controls and periodic monitoring procedures to ensure the correct recognition of the Program's financial and budgetary transactions in a complete set of accounting records, using the double-entry system.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2014-010 (continued)**

Recommendation The Program must give financial training to the accountants in charge of the accounting record-keeping and preparation of the financial reports to ascertain that: (1) the accounting system complies with state and federal law, (2) all transactions related to assets, liabilities, revenues and expenditures is recorded and reconciled in a timely manner.

Questioned Cost None

Management Response and Corrective Action Once the new system has been implemented, the financial information reported will be based on accurate accounting information and revenues and expenditures will be reconciled on a timely manner.

Status: Still in Process

Implementation Date: Fiscal year 2014-2015

Responsible Persons: Mr. José León Gaud, Fiscal Officer

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**2014-011**
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 provide evidence the compliance related to the monitoring responsibility which includes examination of the accounting records and reports of the Sub-Recipient.
Criteria	44 CFR Subpart C, Section 85.40 (a), *Monitoring grantees.* 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. *5th Stage: Evaluation of evidence submitted, & Follow Up other areas:* 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".
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 monitoring, including the adequate training of personnel assigned to monitoring functions.
Questioned Costs	None
Management Response and Corrective Action	The Program will perform the fiscal monitoring to sub-recipients corresponding to the fiscal year 2012-2013 and 2013-2014. Also, the Program will hire a monitor to realize the fiscal monitoring for subsequent years.
Status:	Still in Process Implementation Date: June 2015 Responsible: Mr. Gino Olivieri, Program Director

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

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

Audit Period: July 1, 2013 – June 30, 2014 Fiscal Year: 2013-2014

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

Contact Person: Mr. José D. Rivera Aponte, 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
2013-01 (FS)	Operating Deficit of General Fund (MW)	The Municipality closed its fiscal year ended June 30, 2013 with a fund deficit, before providing reserves in the general fund, of $36,280,976. Also, the Municipality closed with an accumulated unassigned deficit of $53,542,722. The Municipality's internal control relating to the budgeting function does not adequately prevent management from incurring expenditures in excess appropriated funds. In addition, the deficit was caused by the overstatement of estimated revenues and the incurrence of obligations without available credit in the budgetary accounts.	The Municipality of Ponce has 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	None	Not resolved yet. See current finding number 2014-001

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. María E. Meléndez Altieri, Mayor

April 17, 2015
Date

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			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		

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			future budgets and to reduce the accumulated deficit.		
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.	See corrective action described in finding 2013-01	None	Not resolved yet. See current finding number 2014-001.
2013-02 (F/S)	Financial Reporting-Accounting Records (MW)	During our examination of the Municipality's accounting system, we noted that the accounting data still require	As a measurement to achieve an accounting system that	None	Not resolved yet. See current year finding

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		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.	provides 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.		number 2014-002.
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 preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation.	See corrective action described in finding 2013-02	None	Not resolved yet. See current year finding number 2014-002.
2013-03–(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 *none* of these departments or the Municipality's central accounting department, have established the necessary	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 2014-003.

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		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.			
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 *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	See corrective action described in finding 2013-03	None	Not resolved yet. See current finding number 2014-003.

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		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.			
2013-04-(FS)	Municipal License Tax Revenues (MW)	Municipal license tax revenues of the fiscal year 2013-2014, which were collected in advance from taxpayers between January 1 thru June 30, 2013 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund during the fiscal year ended June 30, 2013. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2013-2014, and must not be used to pay obligations of the prior year.	With the implementation of corrective actions taken to the Finding 2013-01, we expect to avoid or, at least, reduce the use of the license tax revenues collected in advance, in future fiscal years.	None	Not resolved yet. See current finding number 2014-004.
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 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, 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.	See corrective action described in finding 2013-04	None	Not resolved yet. See current finding number 2014-004.
2013-05-(FS)	Inadequate Transfers (MW)	The Municipality transfers certain restricted funds to the general operating fund on a temporary basis. These funds were granted by the Commonwealth of Puerto Rico for specific restricted purposes. However, these funds have been properly reflected in the accompanying basic financial	As indicated in this finding, the nature of the transfers realized was temporary and the funds have been properly reflected in the basic financial	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2013-2014.

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		statements as amounts due to and due from the respective funds.	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.		
2013-06 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 test of seventeen (17) fund requisitions, we noted the following exceptions: a) In three (3) fund requisitions in the total amount of $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 show an average monthly cash balance of $12,989 in the CDBG – Entitlement Bank Account. The cash balance shows a higher balance in the following months:	The Program will coordinate with Municipal Finance Department to implement Corrective Action Plan. The plan will review and update policies and processes to reduce the time between the drawdown and payment of the funds. The cash management policies and operating procedures will be in writing and adopted as an internal control procedure in the Program. One of the key item of the procedure will be that no single individual will control a transaction from beginning	None	Not resolved yet. See current finding number 2014-005.

<table>
<tr><th>Original Finding Number</th><th>Finding</th><th>Condition</th><th>Corrective Actions for finding not corrected or partially corrected</th><th>Questioned Cost</th><th>Status</th></tr>
<tr><td></td><td></td><td><table><tr><th>Month</th><th>(BR) Amount</th></tr><tr><td>February 2013</td><td>$ 114,615</td></tr><tr><td>March 2013</td><td>$ 109,472</td></tr><tr><td>April 2013</td><td>$ 163,832</td></tr><tr><td>May 2013</td><td>$ 96,815</td></tr></table>
c) The bank reconciliations in the CDBG – Entitlement Bank Account show a negative cash balance in the following months:
<table><tr><th>Month</th><th>(BR) Amount</th></tr><tr><td>July 2012</td><td>$ (59,590)</td></tr><tr><td>August 2012</td><td>$ (84,397)</td></tr><tr><td>September 2012</td><td>$ (74,437)</td></tr><tr><td>October 2012</td><td>$ (25,862)</td></tr><tr><td>November 2012</td><td>$ (86,617)</td></tr><tr><td>December 2012</td><td>$ (64,110)</td></tr></table></td><td>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.</td><td></td><td></td></tr>
<tr><td>2012-05 Cash Management (C) (I) (MW)</td><td>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</td><td>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 in the total amount of $340,103.54, we observed that the Municipality made the disbursements between seven (7) to eighteen (18) days after the deposits;

b) One (1) requisition of funds, it did not include the signature of the Program Officer who verified and approved the request.

c) The bank reconciliations show an average monthly cash balance of $42,361 in the CDBG – Entitlement Bank Account. The cash balance shows a higher balance in the following months:</td><td>See corrective action described in finding 2013-06</td><td>None</td><td>Not resolved yet. See current finding number 2014-005.</td></tr>
</table>

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<tr><th>Original Finding Number</th><th>Finding</th><th>Condition</th><th>Corrective Actions for finding not corrected or partially corrected</th><th>Questioned Cost</th><th>Status</th></tr>
<tr><td></td><td></td><td><table>
<tr><th>Month</th><th>Amount</th></tr>
<tr><td>November 2011</td><td>$ 96,877</td></tr>
<tr><td>January 2012</td><td>$ 61,907</td></tr>
<tr><td>April 2012</td><td>$ 50,491</td></tr>
<tr><td>May 2012</td><td>$ 64,900</td></tr>
</table></td><td></td><td></td><td></td></tr>
<tr><td>2013-07 Reporting (I) (MW)</td><td>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</td><td>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 in the 2012 Annual Performance and Evaluation Report submitted by the Municipality and we noted the following exceptions:<table>
<tr><th>Line on Report</th><th>Amount per Report</th><th>Amount per Books</th><th>Difference</th></tr>
<tr><td>Part II, Line 15 - Total Expenditures</td><td>4,358,080.90</td><td>4,349,161.30</td><td>8,919.60</td></tr>
<tr><td>Part III, Line 31 – Total Public Service Obligation</td><td>413,818.82</td><td>502,881.27</td><td>(89,062.45)</td></tr>
<tr><td>Part III, Line 41 – Total Planning and Administration</td><td>528,822.23</td><td>640,889.31</td><td>(112,067.08)</td></tr>
</table></td><td>The Program will review and corroborate the information included in the consolidated annual performance report before submission to HUD. At year end, the accuracy and consistency of the Financial Status Report will be reviewed, the Program shall determine whether an adjustment to the IDIS Report (CO4PR26) is required. The review will 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.</td><td>None</td><td>Full corrective action has been taken. This finding was not repeated in fiscal year 2013-2014.</td></tr>
</table>

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<tr><td>2012-06 Reporting (I) (MW)</td><td>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</td><td>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 Municipality and we noted the following exceptions:

<table>
<tr><th>Line on Report</th><th>Amount per Report</th><th>Amount per Books</th><th>Difference</th></tr>
<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>
</table>
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.

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.</td><td>See corrective action described in finding 2013-06</td><td>None</td><td>Full corrective action has been taken. This finding was not repeated in fiscal year 2013-2014.</td></tr>
<tr><td>2012-07 Reporting</td><td>Community Development</td><td>During our test over the reports submitted to the grantor</td><td>The Program will comply with</td><td>None</td><td>Full corrective action</td></tr>
</table>

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
(I) (MW)	Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	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.	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 previously submitted.		has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.
2013-08 Sub-Recipient Monitoring (M)	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development	During our Sub-recipient Monitoring test, we found that the program did not comply with applicable requirements for fiscal monitoring to service provider's financial and accounting records.	The Program will prepare a monitoring plan to monitor CDBG activities including project undertaken by sub-recipients. The Plan will be included in the 2013-2014 Consolidated Plan. The Monitor plan will include: perform desk reviews for all open year grant projects funded under the CDBG program, field visits to monitor work in progress and completed projects, telephone or office conference assistance to grantees, preparation of reports, follow up on corrective actions.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2013-2014.
2012-08 Sub-	Community Development	During our Sub-recipient Monitoring test, we found that the	See corrective action	None	Full corrective action

<table>
<tr><th>Original Finding Number</th><th>Finding</th><th>Condition</th><th>Corrective Actions for finding not corrected or partially corrected</th><th>Questioned Cost</th><th>Status</th></tr>
<tr><td>Recipient Monitoring (M)</td><td>Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</td><td>program did not comply with applicable requirements for fiscal monitoring to service provider's financial and accounting records.</td><td>described in finding 2013-08.</td><td></td><td>has been taken. This finding was not repeated in fiscal year 2013-2014.</td></tr>
<tr><td>2012-09 Davis Bacon Act (D)</td><td>Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development</td><td>During our Davis-Bacon Act test, we evaluated the only contract of construction (Parque Ecológico Urbano) during fiscal year 2010-2011. The following will summarize the exceptions noted:

a) We noted that during the fiscal year 2011-2012, the Municipality did not apply monitoring procedures to required on-site visits to monitor the classifications of workers and wage rates paid.

b) The Municipality's monitors did not obtain all weekly payrolls.</td><td>As a corrective action the Program will prepare a new procedure to delineate the thresholds, responsibilities of data collection and reporting of Davis Bacon. The procedure will verify that all contractors and subcontractors performing construction work with CDBG funds pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits for corresponding classes of laborers and mechanics employed on similar projects in the area. To undertake this, the Program will verify the payroll and conduct interviews with employees at the covered projects. The procedure will be submitted to HUD for approval.</td><td>None</td><td>Full corrective action has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.</td></tr>
<tr><td>2012-10 Accounting Records (L) (MW)</td><td>Home Investment Partnership Program (CFDA NO. 14.239); U.S. Department of Housing and Urban Development</td><td>During our audit, we noted that the Municipality did not maintain an adequate set of accounting records for Home Program. The accounting records by grant did not agree with the amounts reflected in the budget reports.

<table><tr><th>Balance Available by Grant</th><th>Balances Budget Reports</th><th>Balances on the Municipality's Accounting Records</th><th>Difference</th></tr><tr><td>2011</td><td>$ 1,154,877.08</td><td>$ (658,926.05)</td><td>$ 1,813,803.13</td></tr></table></td><td>The Program is undertaking a corrective action plan as part of a recent audit performed by HUD. Among the actions to be taken is the monthly reconciliation of the HOME program accounts. The Accounting Division (AD) of the Program will reconcile</td><td>None</td><td>Full corrective action has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.</td></tr>
</table>

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		2010 | 1,077,268.97 | (423,503.87) | 1,500,772.84 2009 | 922,578.38 | 2,606,783.97 | (1,684,205.59) Also, the Municipality's financial system has a total difference of $44,934.57 between the IDIS Report (CO4PR27) and the Municipality's accounting records in the three (3) year examined. As of June 30, 2012, the amount disbursed per IDIS was $1,312,576.57 versus $1,267,642 per accounting records. The differences calculate arise from grants from the 2009 through 2011 program years. The Municipality's accounting records did not comply with HUD requirements and were no adequate for the preparation of reports.	monthly drawdowns and disbursement made for eligible activities. If discrepancies are found, the AD will review the transaction and will made the required corrections. In addition a new financial procedure was prepared that will be submitted to HUD for review and approval. The financial procedures include the review of the general ledger, trial balance and IDIS reconciliation.		
2012-11 Davis Bacon Act (D)	Home Investment Partnership Program (CFDA No. 14.239); U.S. Department of Housing and Urban Development	During our Davis-Bacon Act test, we evaluated the only contract of construction *(Construction of nine (9) housing units, "Sector Belgica")* during fiscal year 2011-2012. The following will summarize the exceptions noted: a) We noted that during the fiscal year 2011-2012, the Municipality did not apply adequately monitoring procedure to required on-site visits to monitor the classifications of workers and wage rates paid. b) The Program's monitors did not obtain all weekly payrolls.	As a corrective action the Program will prepare a new procedure to delineate the thresholds, responsibilities of data collection and reporting of Davis Bacon. The procedure will verity that all contractors and subcontractors performing construction work with HOME funds pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits for corresponding classes of laborers and mechanics employed on similar projects in the area. To undertake this, the Program will verify the payroll and conduct interviews with employees at the	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			covered projects. The procedure will be submitted to HUD for approval.		
2012-12 Participant Eligibility Test (E) (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	We have performed an eligibility test for sixty (60) participant's files and noted the following exceptions: a) In two (2) cases, the participants rent calculation was not determined correctly and in accordance with federal regulations. The participants' reported incomes were not considered in the rent calculation. For both participants the PHA System created a debt of $2,298 although the PHA cannot penalize participants who were PHA staff technical errors. b) In one (1) case, the medical expenses were not included as deduction to calculate the housing assistance payment and the utility reimbursement to family. The correct utility reimbursement to family is $95 instead of $73. c) In one (1) case, the participant rent calculation was not determined correctly because the PHA staff use the evidence of public assistance (PAN) as income instead of taking other income reported by the participant. The Program is indebted to the participant for $105. d) In one (1) case, the eligibility of the participant and rent calculation was not determined correctly and in accordance with federal regulations. The EIV reports participants' incomes were no considered at the time of admission to Program. PHA Program accepts a participant with a debt to the Public Housing Administration of $1,177.63. e) In one (1) case, the participant rent calculation was not determined correctly because the PHA staff use the evidence of medical expenses as income.	The Program is working with a plan that will improve the internal controls over required documents. The plan includes the following items: 1) A quality control division to revise a sample of the participants' files. 2) Housing technicians will be instructed of the importance of requiring documentation for accurate rent calculation, 3) EIV documentation will be reviewed and presented to tenants for verification in accordance with applicable notices, 4) During monitoring/audit process the Municipality will assign a representative to serve as a liaison between the auditor and the Program. Regarding the individual conditions identified by the auditors we will present the applicable documentation to HUD's field office review.	None	Not resolved yet. See current finding number 2014-006.

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		f) In one (1) case, the Form HUD-91067 Lease Addendum – Violence Against Women and Justice Department Reauthorization Act 2005 was not signed by the participant. g) In thirty (30) cases, the EIV Reports were not signed by the participants. Note: After our intervention the rent calculation was corrected by the PHA staff.			
2012-13 Financial Reporting (L), (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	In our test over "Voucher for Payment of Annual Contribution and Operation Statement Report "VMS" between accounting records, we noted that in the period covered from July 1, 2011 to June 30, 2012 certain differences: a) The "Cash/Investment", for the months of July 2011, August 2011, September 2011, October 2011, January 2011 and June 2012. b) The "Net Restricted Assets" for all months. c) The "Unrestricted Net Assets" for all months. d) The "HAP All Other Vouchers" for the months of September 2011, October 2011, November 2011, December 2011, April 2012, May 2012 and June 2012.	As recommended, the Housing Choice Voucher Program will conduct periodic reconciliation of HAP disbursement in order to present accurate information to HUD. The new reconciliation process will assure that VMS data is reported correctly and according to actual disbursements. We will review the NRA and UNA data to assure the reserve amount reported represent the correct information.	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.
2013-09 Financial Reporting – Accounting Records (L) (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	During our audit, we noted that the Municipality and the Section 8 Housing Choice Vouchers Program's Staff did not maintain an adequate set of accounting records for that present the financial position of the program and results of its operations. 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	Although the program management disagrees with the finding, the Program will prepare and adopt a new financial procedure that will review the content of the existing financial records. The review will include the verification of compliance with the applicable regulation to determine if changes are	None	Not resolved yet. See current finding number 2013-007.

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		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.	necessary. Once the procedure is prepared, training will be provided to the local staff to assure its implementation.		
2012-14 Financial Reporting – Accounting Records (L) (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	During our audit, we noted that the Municipality and the Section 8 Housing Choice Vouchers Program's Staff did not maintain an adequate set of accounting records that present the financial position of the program and results of its operations. 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.	See corrective action described in finding 2013-09	None	Not resolved yet. See current finding number 2013-007.
2012-15 Reporting (L) (MW)	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development	We performed a reporting test and we noted that the unaudited financial data (submitted electronically) was not submitted to HUD through the Real Estate Assessment Center (REAC) in the stipulated time. (August 31, 2012). This submission was made on September 26, 2012 but the same was *Rejected* in January 2013 by inconsistencies in VMS reports and Financial Assessment Subsystem (FDS) and others considerable deficiencies in the FDS. At the time of our intervention, those reasons for the rejection of the FDS report have not been corrected causing the *Audited* financial information is not submitted yet.	A schedule of report submission will be adopted and the Accounting Director will be responsible of its implementation.	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.
2012-16 Payroll and Personnel Records – Rate Authorizations and Timekeeping	Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services	During our test, we examined thirty (30) employee files, the assistance time cards and accrue vacation and sick cards; we found the following deviations: a) In three (3) cases, the sick vacations days at 6/30/12 per compensated cards did not agree with	The Human Resources supervisor of the Program will establish a document verification system to make sure that each employee file include the updated document	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.

<table>
<tr><th>Original Finding Number</th><th>Finding</th><th>Condition</th><th>Corrective Actions for finding not corrected or partially corrected</th><th>Questioned Cost</th><th>Status</th></tr>
<tr><td></td><td></td><td>the license record prepared by the client.

b) In nine (9) cases, the gross amount payment per payroll did not agree with the gross amount payment included in the employee's file documentation.</td><td>that agrees with the gross amount payroll payment.</td><td></td><td></td></tr>
<tr><td>2013-10 Cash Management (C) (MW)</td><td>Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services</td><td>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 ensure 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 was 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 an average monthly cash deficit of $115,058 in the Head Start Bank Account. The cash balance shows a negative reconciled balance in the following months:

<table><tr><th>Month</th><th>Reconciled Balance</th></tr><tr><td>Jan-12</td><td>$ (251,484.99)</td></tr><tr><td>Feb-12</td><td>(256,794.16)</td></tr><tr><td>Mar-12</td><td>(444,133.42)</td></tr><tr><td>Apr-12</td><td>(259,272.68)</td></tr><tr><td>May-12</td><td>(251,095.20)</td></tr></table>
d) The cash balance shows a higher reconciled balance in the following months:</td><td>The Program Director will change the person authorized to approve requisitions of funds in the HHS Payment Management System (Item a).

The program Fiscal Manager will improve the procedure of file of supporting document related to the requisition of funds (Item b).

This is an isolated situation caused by summer and Christmas shutdown, in which the program has been forced to make advanced request of fund related to the payroll payable during the shutdown (Item c).

This situation occurred in year 2011 because the Program did not considerate the increase of the employer social security contribution percentage at the time of prepare the request of fund. The subsequent requests of funds we made making correctly (Item d).

The Program director will evaluate the implementation</td><td>None</td><td>Not resolved yet. See current year finding number 2014-008.</td></tr>
</table>

<table>
<tr><th>Original Finding Number</th><th>Finding</th><th>Condition</th><th>Corrective Actions for finding not corrected or partially corrected</th><th>Questioned Cost</th><th>Status</th></tr>
<tr><td></td><td></td><td>

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.</td><td>of direct deposit method to the payments to all suppliers. This payment method will reduce the average monthly cash balance (Item e).</td><td></td><td></td></tr>
<tr><td>2012-17 Cash Management (C) (MW)</td><td>Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services</td><td>During our cash management test we examined over thirty (30) requisitions of funds and after our procedures, we found the following exceptions:

a) The requisitions of funds were not approved by the person authorized in the HHS Payment Management System;

b) Three (3) of the requisitions of funds were issued without the supporting documents. The actual results were not reconciled to ensure that the fund requisition was consistent with realistic cash needs;

c) In four (4) fund requisitions, we observed that the Municipality made the disbursements between five (5) and hundred and nineteen (119) days after the deposits;

d) Requisitions of funds to cover the Program fringe benefits were not correctly calculated. The deficiency of the requested funds determined by us amounted to $104,927.25.</td><td>See corrective action described in finding 2013-10</td><td>None</td><td>Not resolved yet. See current year finding number 2014-008.</td></tr>
</table>

<table>
<tr><th>Original Finding Number</th><th>Finding</th><th>Condition</th><th>Corrective Actions for finding not corrected or partially corrected</th><th>Questioned Cost</th><th>Status</th></tr>
<tr><td></td><td></td><td>e) The bank reconciliations show an average monthly cash balance of $54,974 in the Head Start Bank Account. The cash balance shows a higher balance in the following months:
<table>
<tr><th>Month</th><th>Amount</th><th>Month</th><th>Amount</th></tr>
<tr><td>January 2011</td><td>$ 181,247</td><td>May 2011</td><td>$ 171,084</td></tr>
<tr><td>February 2011</td><td>$ 124,486</td><td>June 2011</td><td>$ 157,512</td></tr>
<tr><td>March 2011</td><td>$ 206,396</td><td></td><td></td></tr>
<tr><td>April 2011</td><td>$ 186,208</td><td></td><td></td></tr>
</table></td><td></td><td></td><td></td></tr>
<tr><td>2012-18 Expenditures for Goods and Services and Accounts Payable – Purchasing and Receiving</td><td>Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services.</td><td>We performed a cash disbursement test and selected fifty (50) disbursement vouchers. The following will summarize the internal control exceptions noted:

a) The disbursements for thirty three (33) vouchers were not charged correctly to the period. The disbursement vouchers correspond to program year 2011 and were registered in the accounting records of 2012.

b) Disbursement vouchers for the professional services for the maintenance of the MIP accounting program were incorrectly charged as training costs (PA-20).

c) We found letters of exclusive providers used for the purchase of cleaning products and educational material specifying the brands of the products.

d) In five (5) cases the request for quotations prepared by the buyer official did not establish the characteristics of the product needed.</td><td>The Program Director will take appropriate corrective action to avoid the situation mentioned in the item (a) and item (b).

Before acquiring goods and services, the Program evaluated the necessity of such and determined that the merchandise that the selected supplier distributes, is the one that satisfies the necessity of the Program. Different brands of the same product exist but the quality does not satisty the Program requirement (Item c).

The Program will make sure to extend the specifications in future purchases (Item d).</td><td>None</td><td>Full corrective action has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.</td></tr>
</table>

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		e) For twenty two (22) disbursement vouchers the functionary who authorized the purchase (select the bidder), did not prepare a certification to include the name, title and signature, with the analysis of the quotations and the selection of the service provider or the supplier. f) The purchase orders included in ten (10) disbursement vouchers of Head Start Program did not include the description of the services or goods ordered. Although, an internal document is prepared by the Program staff with the specific order to the supplier; it did not include the responsible officer authorization signature and is not included with the approved disbursement voucher.	The Program will implement the use of a comparative table of the quotations received before select the supplier (Item e). Adequate corrective action was taken by the Program Director to ensure that the internal document prepared by the Program staff with the specific order to the supplier includes the responsible officer authorization signature. Also, a copy of the internal documents is sent to Municipal Pre-Audit Office with the related invoice, to the corresponding evaluation and validation. The cases found in the audit are related to mede realized before the implementation of this corrective action (Item f)		
2013-11 Matching, Level of Effort, Earmarking – Administrative Cost Limits (G)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	The accounting system maintained by Head Start Program did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percent (15%) administrative costs limit.	Effective on July 2012, the Program prepares purchase orders separated for administrative and programmatic expenditures and identified and allocated appropriately cost with dual benefits, using a cost-benefit proportion.	None	Not resolved yet. See current year finding number 2014-009.
2012-19 Matching, Level of Effort, Earmarking – Administrative Cost Limits (G)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	The accounting system maintained by Head Start Program did not provide for the classificetion 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	See corrective action described in finding 2013-11	None	Not resolved yet. See current year finding number 2014-009.

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		limit.			
2012-20 Procurement and Suspension and Debarment (I) (MW)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	We have performed audit procedures to eight (8) contracts and noted the following exceptions: a) Five (5) contracts did not include provisions for granting access to GAO or other federally agency, to books, documents, etc. b) Five (5) contracts did not include provision for retention of all required records for three years. c) One (1) contract did not contain contractual legal remedies when contractor violates contract term, and does not provide for such sanctions and penalties as may be appropriate. d) One (1) contract did not include provision for termination by grantee by default.	The Program Director will require, one more time, to the Legal Services Office to instruct this Lawyers about the contract provisions required by the 45 CFR Part 92, Subpart C, Section 92.36 (1).	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.
2013-12 Accounting Records (L) (MW)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	During our audit, we noted that the accounting records maintain for Head Start Program do not fairly present the financial position of the program and the results of its operations. We found that $414,490 related to the employees' fringe benefit (health insurance) was paid with the 2012 budget but not recorded as expense and $99,052.25 was transferred from the Municipality to the Head Start bank account to cover part of this expense but it was not correctly registered. In addition, the Program incurred in costs for payroll and fringe benefits in excess of the approved balances in the grant award.	The Program Accounting Supervisor trained to the employee in charge in the preparation of budget and financial report to ascertain that the accounting system complies with state and federal law and that the budget be prepared according to realistic needs and be expended as established. In addition, the Program will implement internal control procedures to assure that the use of Federal funds is restricted Beginning on January 2012,	None	Not resolved yet. See current finding number 2014-010.

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
			the Program implemented the Mechanized Accounting System (MIP) and a comparative analysis between the information provided by the Municipal Accounting System (SIGMA) and the MIP		
2012-21 Accounting Records (L) (MW)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	During our audit, we noted that the Program did not maintain an adequate set of accounting records for Head Start Program to fairly present the financial position of the Program and results of its operations.	See corrective action described in finding 2013-12.	None	Not resolved yet. See current finding number 2014-010.
2013-13 Reporting - Financial Administration (L) (MW)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report and the quarterly Cash Transaction Reports submitted to the federal agency and the amounts detailed in the general ledger, and bank reconciliations. As result, the financial reports do not agree with the program accounting records.	With the implementation of the Mechanized System of Accounting MIP and the comparative analysis between SIGMA and MIP we expect to correct the situations mentioned in this finding.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2013-2014.
2012-22 Reporting - Financial Administration (L) (MW)	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services	In our Reporting Test, we found differences between the amounts reported as Federal expenditures in the Financial Status Report and the quarterly Cash Transaction Reports submitted to the federal agency and the amounts detailed in the general ledger, and bank reconciliations. As result, the financial reports do not agree with the program accounting records.	See corrective action described in finding 2013-13.	None	Full corrective action has been taken. This finding was not repeated in fiscal year 2013-2014.
2012-23 Cash Management (C)	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services	During our cash management test, we examined thirty four (34) requisitions of funds and after our procedures were performed, we found the following exceptions: a) In eight (8) fund requisitions, we observed that the Municipality made the disbursements between six (6) and twenty eight days (28) after the deposits. b) During the fiscal year 2011-2012, the Program maintained an average monthly cash balance of	The Program Director will coordinate with Municipal Finance Department the adequate corrective action to reduce the time between the deposit of funds and the disbursement (Item a). The Program has requested counseling to the Federal	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
		$76,681.82.	agency to determine the correct procedure to return back excessive fund deposited and not used (Item b).		
2012-24 Reporting (L)	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services	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 2011-2012.	The Program will comply with FFATA reporting requirements for all first-tier sub-awards (sub-grants and subcontracts) related to the 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 previously submitted.	None	Full corrective action has been taken. This finding was not repeated in fiscal years 2012-2013 and 2013-2014.
2013-14 Sub-Recipient Monitoring (M))	HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services	During our Sub-recipient Monitoring test, we found that the Program did not comply with applicable requirements for fiscal monitoring. The Program did not show evidence concerning the status of work, reports and accounting records.	The Program will realize the fiscal monitoring to sub-recipients corresponding to the fiscal year 2012-2013 as part of the current monitoring.	None	Not resolved yet. See current finding number 2014-011.