
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, 2012



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

Visit our website at www.visitponce.com

Hon. María E. Meléndez Altieri, Mayor

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AUTONOMOUS MUNICIPALITY OF PONCE**

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AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT**

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COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

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

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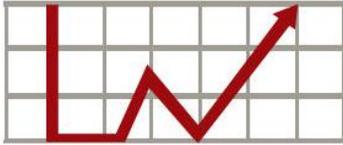
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López-Vega, CPA, PSC

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**

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, 2012, which collectively comprise the **Municipality's** basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the **Municipality's** as of June 30, 2012, or the changes in financial position thereof for the year then ended.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In addition, in our opinion, except for the effects of omitting the legally separated discrete component units, as discussed above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the **Municipality's**, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Municipality's, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



INDEPENDENT AUDITORS' REPORT (CONTINUED)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Autonomous Municipality of Ponce's** basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non- Profit Organizations, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinions, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

San Juan, Puerto Rico
March 28, 2013

Stamp No. 2632132 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

This discussion and analysis of the **Autonomous Municipality of Ponce** (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2012. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2011. 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 2011-2012 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 2012 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 \$498,202,479 which represents an increase of 6% compared to prior fiscal year.
- ❑ At the end of fiscal year 2012, total liabilities amounted to \$385,773,346. Out of said amount, \$326,260,327 corresponded to long-term liabilities of which \$209,202,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.
- ❑ Total net assets of the Municipality amounted to \$112,429,133 which represents an increase of 13% compared to prior fiscal year, as restated.
- ❑ Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$175,254,188 derived from the following sources: \$2,490,796 from charges for services; \$54,626,212 from operating grants and contributions; \$7,522,579 from capital grants and contributions obtained from other sources, and \$110,614,601 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 \$162,303,778.
- ❑ As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$12,950,410.

FINANCIAL HIGHLIGHTS (CONTINUED)

- ❑ As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$27,135,206.
- ❑ In the fund financial statements, the governmental activities revenue increased \$11,886,721 (or 8%); governmental activities expenditures increase \$10,075,350 (or 6%).
- ❑ On a budgetary basis, the actual General Fund budgetary activities resulted in an unfavorable balance of \$17,582,630.
- ❑ As the end of the current fiscal year, the Municipality's General Fund accumulated deficit amounted to \$35,374,774 compared to a General Fund accumulated deficit of \$28,545,319 in the prior fiscal year, as restated. The accumulated deficit increase \$6,829,455 (or 24%) compared to prior fiscal year. Previously shown in the line of Unreserved (deficit), after GASB 54 in the line Unassigned.
- ❑ The Municipality issued bonds and notes amounting to approximately \$25.16 million to finance acquisition of equipment, resurfacing of streets and roads, construction of "Ciudad Deportiva", and acquisition of equipment for Ponce "Convention Center"

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

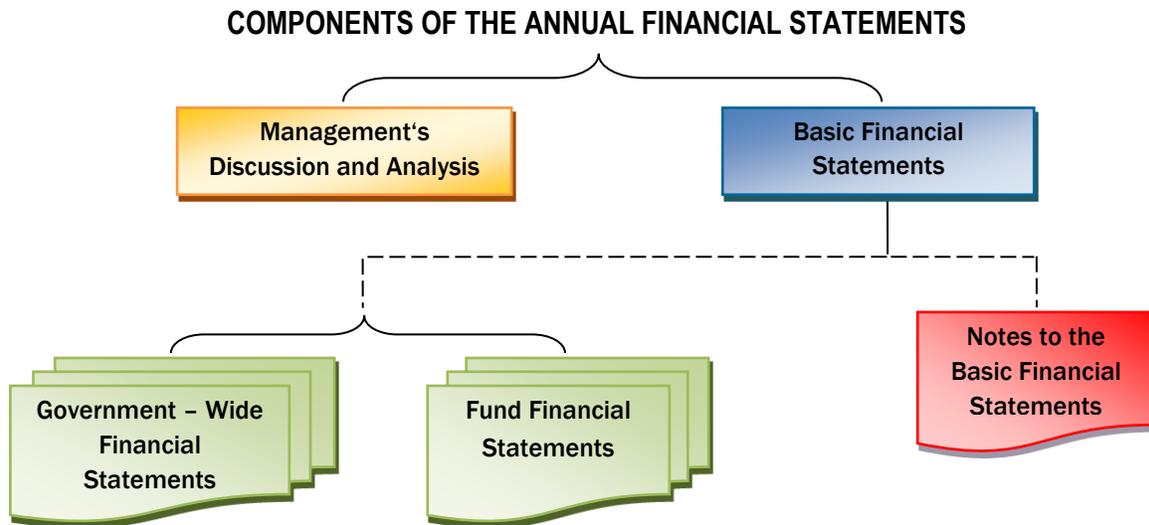
The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2011-2012. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

FINANCIAL STATEMENTS COMPONENTS

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

FINANCIAL STATEMENTS COMPONENTS (continued)



Government-Wide Financial Statements

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

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

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

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

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

FINANCIAL STATEMENTS COMPONENTS (continued)

Fund Financial Statements

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

The Municipality maintains six (6) individual governmental funds: General Fund, Capital Projects Fund – Bonds Issues, Debt Service Fund, Health and Human Service Grants (HHS), Workforce Investment Act Grants (WIA), Housing Urban Development Grants (HUD) and Other Funds. The Housing Urban Development Grants (HUD) includes the Municipal Bank. Information is shown in the balance sheet and in the statement of revenues, expenditures and changes fund balances.

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

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

FINANCIAL STATEMENTS COMPONENTS (continued)

Infrastructure Assets

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

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

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Government-wide Financial Analysis

Assets, liabilities and net assets

Assets

As of June 30, 2012, the Municipality's total assets amounted to \$498,202,479, an increase of \$29,802,499 when compared with the prior year. The assets exceeded its liabilities by \$114,473,940.

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 2011-2012 include Ponce "Convention Center", construction of "Ciudad Deportiva", and resurfacing of streets and roads. The total costs of those projects will be estimated in \$60.00 million. Total capital projects still in process amount to \$88,963,633. During the current fiscal year the Municipality's total capital assets increased by \$25.78 million 7 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 2012, total liabilities amounted to \$385,773,346. The current liabilities decreased by \$1,854,525 million and at the end of the current fiscal year, the Municipality had outstanding debt (bonds and notes) of \$209,202,000. During the current fiscal year, the Municipality's long term liabilities increased by \$18,706,614 or 6 percent due to issuance of new debt.

Net Assets

The Statement of Net Assets serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Ponce**, primary government assets exceed total liabilities by \$112,429,133 at the end of 2012, as compared to prior fiscal year, as restated. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$12,950,410 increase reflected in the Net Assets figure.

CONDENSED STATEMENTS OF NET ASSETS

| | 2012 | 2011 | Change | % |
|--|-----------------------|----------------------|---------------------|-------|
| ASSETS | | | | |
| Current and other assets | \$ 95,086,225 | \$ 91,070,925 | \$ 4,015,300 | 4% |
| Capital assets | 403,116,254 | 377,329,055 | 25,787,199 | 7% |
| Total assets | <u>498,202,479</u> | <u>468,399,980</u> | <u>29,802,499</u> | 6% |
| LIABILITIES | | | | |
| Current and other liabilities | 59,513,019 | 61,367,544 | (1,854,525) | (3)% |
| Long-term debt outstanding | 326,260,327 | 307,553,713 | 18,706,614 | 6% |
| Total liabilities | <u>385,773,346</u> | <u>368,921,257</u> | <u>16,852,089</u> | 5% |
| NET ASSETS: | | | | |
| Invested in Capital assets, net of related debt | 274,100,447 | 280,566,055 | (6,465,608) | (2)% |
| Restricted for: | | | | |
| Special purposes | 19,412,857 | 2,834,965 | 16,577,892 | 585% |
| Capital projects | 15,667,223 | 25,440,924 | (9,773,701) | (38)% |
| Debt service | 17,568,233 | 14,712,643 | 2,855,590 | 19% |
| Federal grants | 12,380,539 | 9,467,681 | 2,912,858 | 31% |
| Unrestricted | (226,700,166) | (233,543,545) | 6,843,379 | (3)% |
| Total net assets: | <u>\$ 112,429,133</u> | <u>\$ 99,478,723</u> | <u>\$12,950,410</u> | 13% |

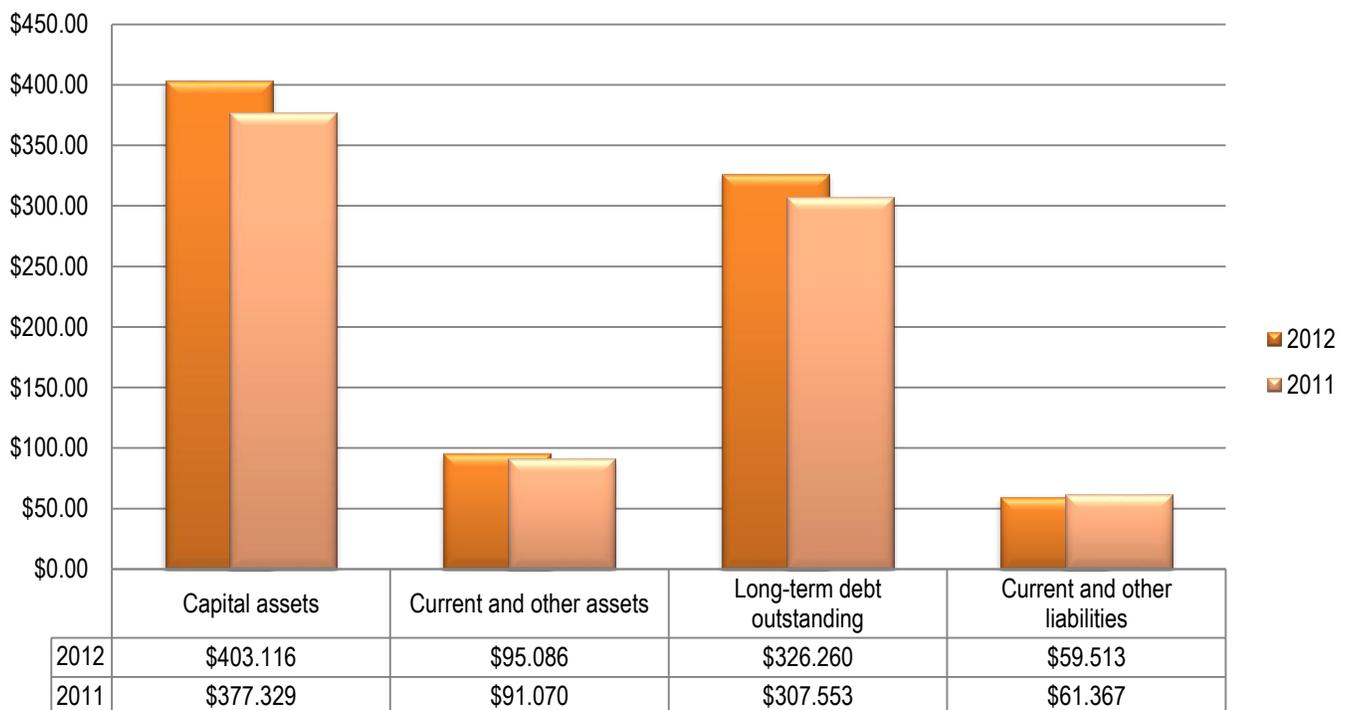
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

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

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

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

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



FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continued)

Changes in Nets Assets

The Municipality's net assets increase by \$12,950,410. Approximately 47% of the Municipality's total revenue came from taxes, while 46% resulted from grants and contributions, including federal aid. Charges for Services provided 2%, Interest 1% and others 4% of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services and public works. The following table includes the composition of revenues and expenses for the fiscal years ended on June 30, 2012 and 2011.

CONDENSED STATEMENTS OF ACTIVITIES

| | 2012 | 2011 | Change | % |
|---|-----------------------|-----------------------|-----------------------|--------|
| PROGRAM REVENUES: | | | | |
| Charges for services | \$ 2,490,796 | \$ 1,614,159 | \$ 876,637 | 54% |
| Operating grants and contributions | 54,626,212 | 44,213,998 | 10,412,214 | 24% |
| Capital grants and contributions | 7,522,579 | 12,244,715 | (4,722,136) | (39)% |
| GENERAL REVENUES: | | | | |
| Property taxes | 45,945,388 | 46,331,093 | (385,705) | (1)% |
| Municipal license tax | 20,613,936 | 19,449,906 | 1,164,030 | 6% |
| Sales tax | 15,965,827 | 15,553,110 | 412,717 | 3% |
| Licenses, permits and other local taxes | 6,376,789 | 7,072,845 | (696,056) | (10)% |
| Grants and contributions not restricted to specific purpose | 17,691,162 | 16,019,418 | 1,671,744 | 10% |
| Interest | 1,217,919 | 1,444,616 | (226,697) | (16)% |
| Others | 2,803,580 | 3,504,429 | (700,849) | (20)% |
| Total revenues | <u>\$ 175,254,188</u> | <u>\$ 167,448,289</u> | <u>\$ 7,805,899</u> | 5% |
| EXPENSES: | | | | |
| General government | 64,085,711 | 60,776,818 | 3,308,893 | 5% |
| Public safety | 13,642,595 | 14,851,135 | (1,208,540) | (8)% |
| Public Works | 8,904,778 | 17,797,920 | (8,893,142) | (50)% |
| Culture and recreation | 3,069,330 | 7,989,559 | (4,920,229) | (62)% |
| Health and welfare | 23,655,743 | 23,702,939 | (47,196) | 1% |
| Urban development | 938,850 | 338,248 | 600,602 | 178% |
| Claims and judgments | - | 96,373 | (96,373) | (100)% |
| Education | 16,124,487 | 15,920,677 | 203,810 | 1% |
| Training and employment | 3,487,625 | 4,863,385 | (1,375,760) | (28)% |
| Capital outlays: | | | | |
| Special Communities | 2,581,543 | 2,212,532 | 369,011 | 17% |
| Projects | 16,659,796 | 11,543,970 | 5,115,826 | 44% |
| Interest | 9,153,320 | 5,905,113 | 3,248,207 | 55% |
| Total expenses | <u>\$162,303,778</u> | <u>\$165,998,669</u> | <u>\$ (3,694,891)</u> | (2)% |
| Change in net assets | 12,950,410 | 1,449,620 | 11,500,790 | 793% |
| Net assets, beginning of year (as restated) | <u>99,478,723</u> | <u>98,029,103</u> | <u>1,449,620</u> | 2% |
| Net assets, end of year | <u>\$112,429,133</u> | <u>\$ 99,478,723</u> | <u>\$12,950,410</u> | 13% |

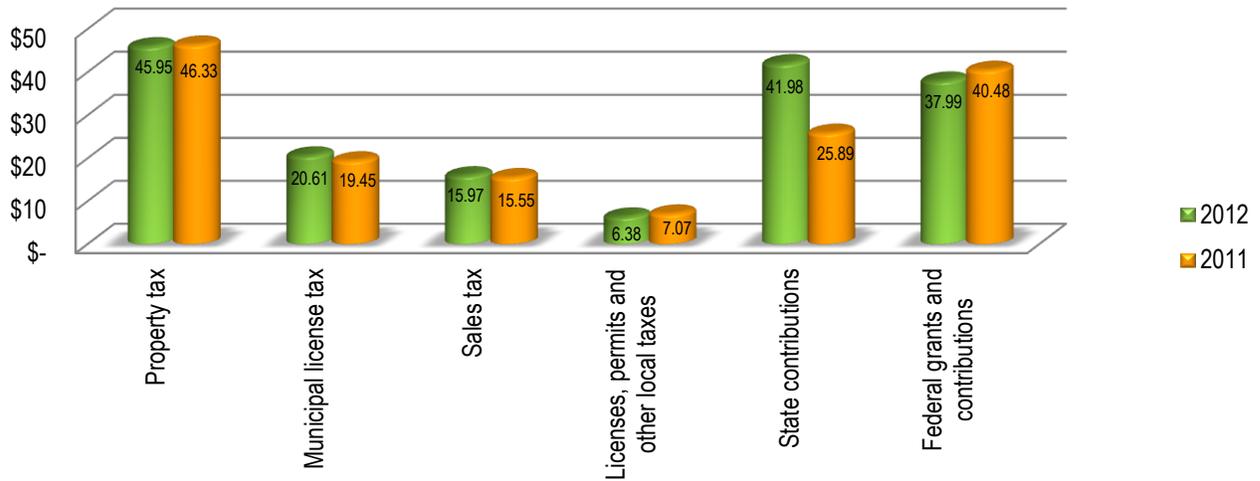
FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

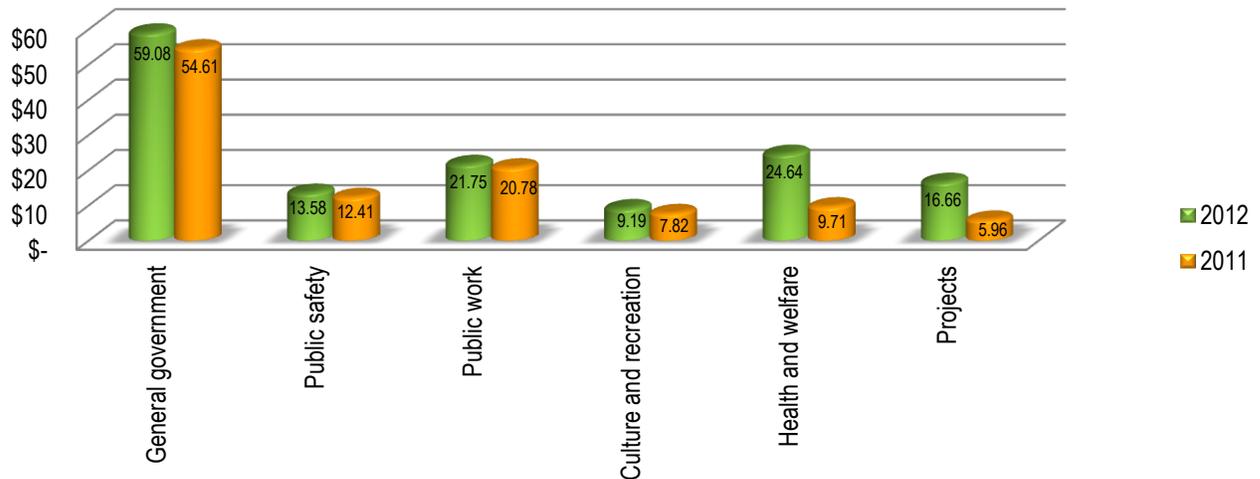
The focus of the Municipality's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of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

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

Governmental Revenues (In Millions)



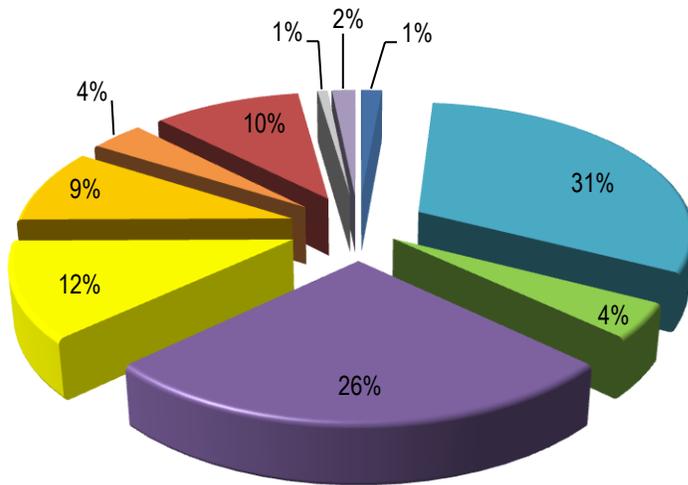
Governmental Expenditures (In Millions)



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

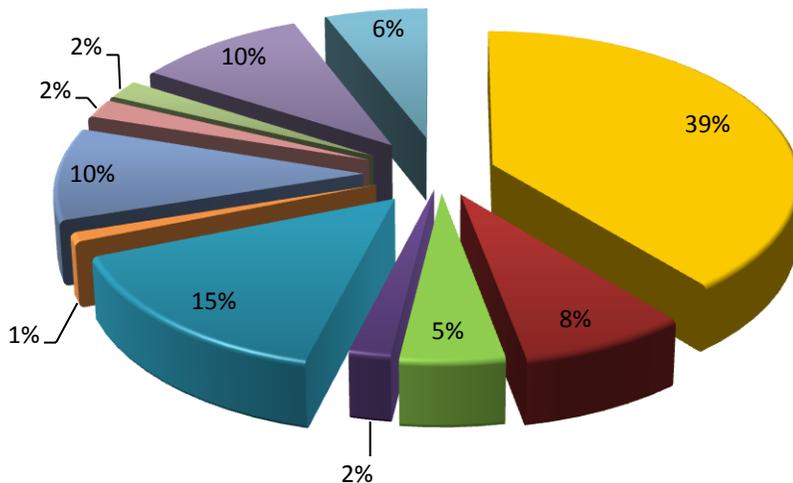
The following charts summarize the Municipality's revenues and expenses for the fiscal year ended June 30, 2012.

Revenues 2012



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

Expenses 2012



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

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Fund Balances

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$27,135,206, an increase of \$5.12 million in comparison with the prior year, as restated. The combined fund balances include restricted fund balances amounting to \$62.34 million. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restriction 1) to pay for specific program purposes (\$29.11 million); 2) to pay for capital projects (\$15.66 million) and 3) to pay for debt services (\$17.56 million). There are committed fund balances amounting to \$162,108 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions. Consequently, since there is an excess of restricted and committed fund balances over total fund balances, a negative unassigned fund balance of \$35.37 million was reported in the governmental funds at June 30, 2012.

Governmental funds include the General Fund, which is the main operating fund of the Municipality. As of June 30, 2012, the General Fund has an accumulated deficit of \$18,480,789 compared with prior fiscal year, as restated, of \$16,889,275. The deficit decreases by \$1,591,514.

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

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

Governmental funds also include the Debt Service Fund. The fund balance of the Debt Service Fund as of June 30, 2012 and 2011 amounted to \$17.56 million and \$14.7 million, respectively. The increases of \$2.85 million in the fund balance of the Debt Service Fund is the result of an increase to the special ad valorem tax restricted for debt service and accounted for in the Debt Service Fund from 1.5% to 2.5%.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2011-2012, the Municipal Legislature approved an original budget for the General Fund of \$112.08 million. During the year, there was no amendment to include any changes in revenues that were identified during the course of the fiscal year. The budgetary comparison reflected a deficiency of \$17.58 million of total current expenses over operating revenues.

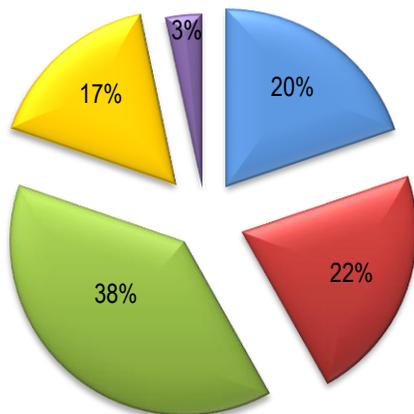
CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2012, amounted to \$504,678,514 which upon deduction of accumulated depreciation in the amount of \$101,562,260 produced a net book value attributable to capital assets in the amount of \$403,116,254. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately seven percent (7%) of net book value. Depreciation charges for the year totaled \$7,722,106.

The following chart summarizes the Municipality's capital assets for the fiscal years ended June 30, 2012 and 2011.

| Capital Assets (Net of accumulated depreciation) | | |
|--|-------------------------|-----------------------|
| | Governmental Activities | |
| | 2012 | 2011 |
| Land and improvements | \$ 79,770,461 | \$ 80,488,862 |
| Construction in progress | 88,963,633 | 64,667,163 |
| Buildings and buildings improvements | 154,772,405 | 157,679,650 |
| Infrastructure and infrastructure improvements | 66,330,928 | 65,114,084 |
| Machinery and equipment | 13,278,827 | 9,379,296 |
| Total | \$ 403,116,254 | \$ 377,329,055 |



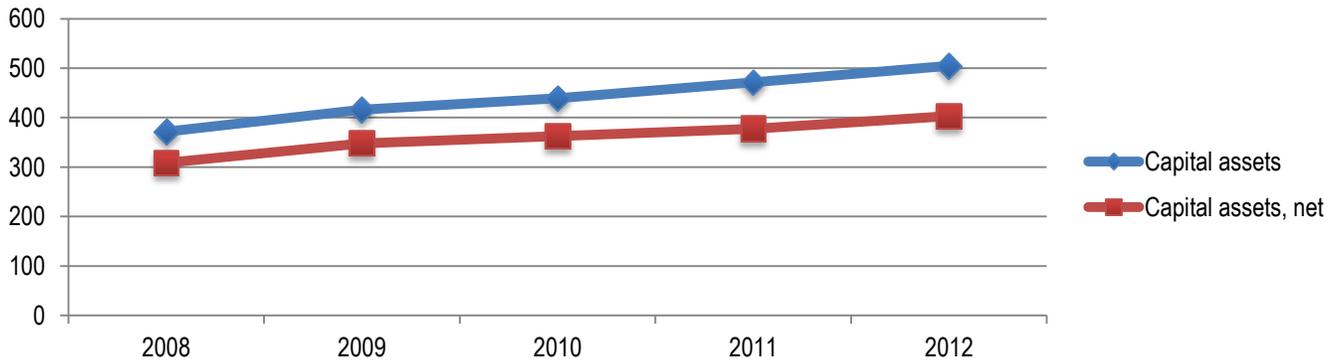
Capital Assets 2012

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (continued)

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



Building, infrastructure and equipment increased by approximately \$9 million. Detailed information about the Municipality’s capital assets is presented in Note 6 to the basic financial statements.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2012, the Municipality has \$15,453,051 of proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the General Fund, Capital Project Fund and Other Fund.

Debt Administration

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration (continued)

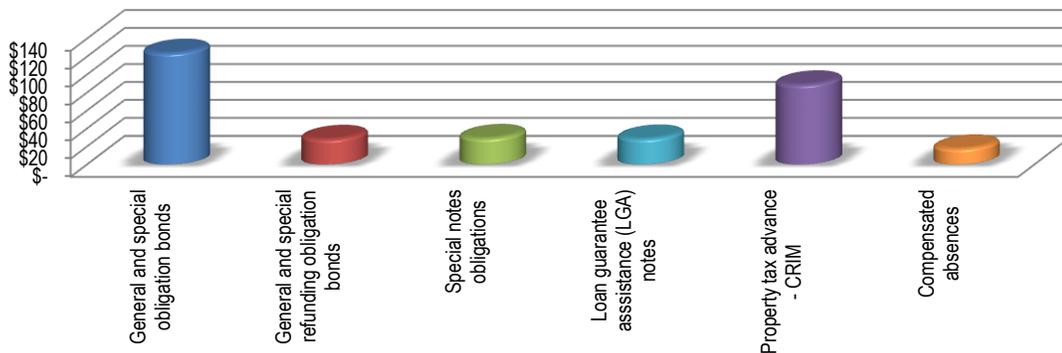
In the particular case of the Municipality of Ponce, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

On June 30, 2012, the Municipality had \$326.26 million in bonds, notes and other long-term debts outstanding, as compared to \$307.55 million in prior year, an increase of \$18.70 million, as shown in table below. The Municipality paid \$10.15 million in principal and \$4.25 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 \$3.26 million to design and construction for “Ciudad Deportiva” project; \$3.28 million to other infrastructures’ constructions, resurfacing of streets; \$1.03 for the acquisition of equipment for the Ponce Convention Center; \$13.05 million in operational loan and \$2.21 for payment of debt with the Retirement System Administration. Under current state statutes, the Municipality required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property tax restricted for debt services.

The following chart summarizes the Municipality’s capital assets for the fiscal years ended June 30, 2012 and 2011.

| Long Term Debt | | |
|---------------------------------|--------------------------------|-----------------------|
| | Governmental Activities | |
| | 2012 | 2011 |
| General and special obligation | \$ 180,840,000 | \$ 164,970,000 |
| Loan guarantee assistance notes | 28,362,000 | 29,226,000 |
| Non – revolving Line of Credit | 2,044,807 | |
| Advances from CRIM | 88,647,435 | 85,929,830 |
| Other obligations | 24,078,193 | 21,313,467 |
| Interest due for sold account | 2,287,892 | 2,402,287 |
| Total | \$ 326,260,327 | \$ 303,841,584 |

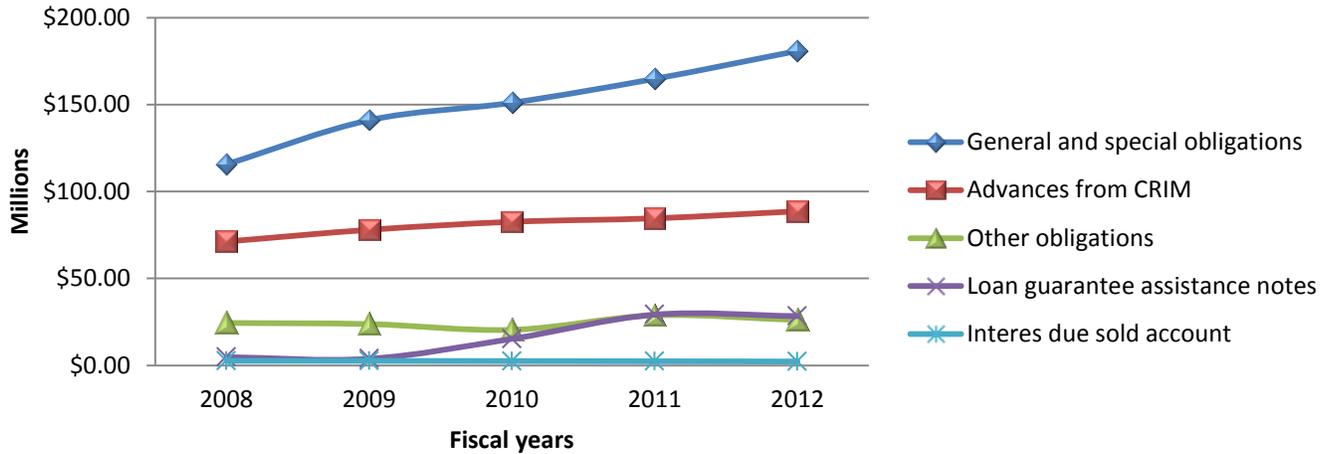
Long Term Debt 2012



CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration (continued)

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



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

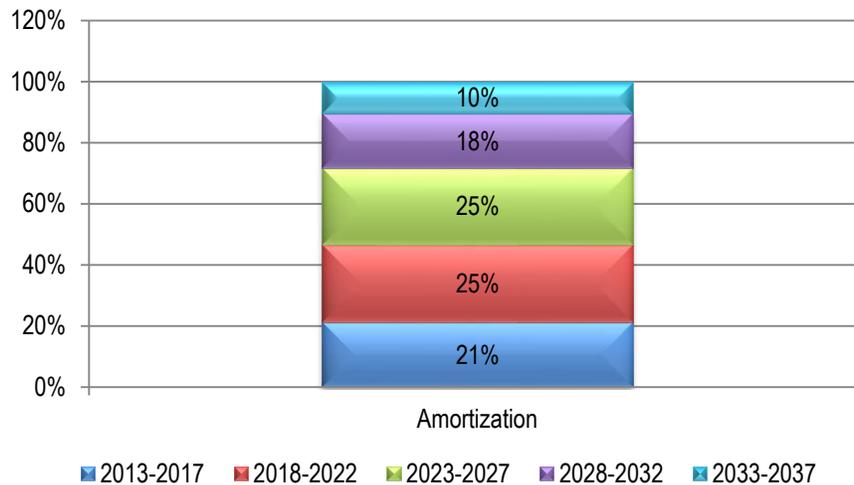
At June 30, 2012, the Municipality had \$180.84 million of general obligation bonds outstanding. The following chart indicates the principal amortization of the Municipality’s general obligation bonds in five-year increments.

| General Obligation Bonds Principal Amortization In five Year Increments Following Fiscal Year 2012 | |
|---|-----------------------------------|
| <u>Range of Years</u> | <u>Principal Amortization</u> |
| 2013-2017 | \$ 37,800,000 |
| 2018-2022 | 44,840,000 |
| 2023-2027 | 44,361,000 |
| 2028-2032 | 31,315,000 |
| 2033-2037 | 18,283,000 |
| Total | \$ 176,599,000 |

CAPITAL ASSETS AND DEBT ADMINISTRATION

Debt Administration (continued)

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



The Municipality has various outstanding notes payable amounting to \$32.60 million at June 30, 2012. Those notes payable were mainly issued for the acquisition, construction and improvement of capital assets and for construction in progress.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Act No. 94

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

The Port of Las Americas

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (continued)

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

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

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

Next year's budget

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2012-2013.

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Statement of Net Assets
June 30, 2012

| | Component Units | |
|--|--------------------------------|-------------------|
| | Governmental Activities | Patronato |
| Assets | | |
| Cash (Note 2) | \$ 5,121,046 | \$ 324,258 |
| Accounts receivable net (Note 3): | | |
| Municipal license tax (Notes 3) | 392,190 | |
| Sales tax (Note 9) | 954,718 | |
| Construction excise taxes | | |
| Landfill | 129,894 | |
| Others | 8,732,862 | 2,821 |
| Inventories | | 26,974 |
| Due from central government (Note 4) | 2,522,585 | |
| Due from federal government (Note 4) | 10,162,243 | |
| Restricted assets: | | |
| Cash and cash equivalents (Note 2) | 17,714,593 | |
| Cash and cash equivalents with fiscal agent (Note 2) | 49,356,094 | |
| Capital assets(Notes 6): | | |
| Land, improvements and construction in progress | | |
| Non-depreciable | 141,954,490 | |
| Buildings, infrastructure and other capital assets, net of depreciation | 261,161,764 | 341,367 |
| Total capital assets | <u>403,116,254</u> | <u>341,367</u> |
| Total assets | <u>498,202,479</u> | <u>695,420</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities (Note 7) | 26,781,365 | 14,571 |
| Due to other agencies (Note 10) | 7,634,763 | |
| Deferred revenues (Note 12): | | |
| Municipal license tax | 16,301,577 | |
| Federal grant revenues | 5,911,542 | |
| Other | 17,261 | 101,596 |
| Accrued expenses | | 58,041 |
| Accrued interest | 2,866,511 | |
| Noncurrent liabilities (Note 13): | | |
| Due within one year | 15,123,065 | 2,382 |
| Due in more than one year | 311,137,262 | 5,590 |
| Total liabilities | <u>385,773,346</u> | <u>182,180</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 274,100,447 | |
| Restricted for: | | |
| Special purpose | 19,412,857 | |
| Capital projects | 15,667,223 | |
| Debt service | 17,568,233 | |
| Federal grants | 12,380,539 | |
| Unrestricted (deficit) net assets | <u>(226,700,166)</u> | <u>513,240</u> |
| Total net assets | <u>\$ 112,429,133</u> | <u>\$ 513,240</u> |

**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Statement of Activities
For the Year Ended June 30, 2012**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | |
|---|-----------------------|-------------------------|--|--|--|-------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | Component Units |
| | | | | | Governmental Activities | Patronato |
| Primary Government | | | | | | |
| General government | \$ 64,085,711 | \$ - | \$ - | \$ - | \$ (64,085,711) | \$ - |
| Public safety | 13,642,595 | 1,070,881 | | | (12,571,714) | |
| Public works | 8,904,778 | | 15,883,326 | 7,522,579 | 14,501,127 | |
| Culture and recreation | 3,069,330 | 1,419,915 | 963,600 | | (685,815) | |
| Health and welfare | 23,655,743 | | 20,777,371 | | (2,878,372) | |
| Urban development | 938,850 | | | | (938,850) | |
| Education | 16,124,487 | | 14,267,416 | | (1,857,071) | |
| Training and employment | 3,487,625 | | 2,734,499 | | (753,126) | |
| Capital outlays: | | | | | | |
| Special communities | 2,581,543 | | | | (2,581,543) | |
| Projects | 16,659,796 | | | | (16,659,796) | |
| Interest | 9,153,320 | | | | (9,153,320) | |
| Total governmental activities | \$ 162,303,778 | \$ 2,490,796 | \$ 54,626,212 | \$ 7,522,579 | (97,664,191) | - |
| Component units | | | | | | |
| "Patronato" | | | | | | 1,099,067 |
| Total Component Units | \$ - | \$ - | \$ - | \$ - | - | 1,099,067 |
| General revenues: | | | | | | |
| Property taxes (Note 8) | | | | | 45,945,388 | |
| Municipal license tax (Note 3) | | | | | 20,613,936 | |
| Sales tax (Note 9) | | | | | 15,965,827 | |
| Licenses, permits and other local taxes | | | | | 6,376,789 | |
| Grants and contribution not restricted for specific purpose | | | | | 17,691,162 | 431,529 |
| Interest | | | | | 1,217,919 | 2,368 |
| Others | | | | | 2,803,580 | 649,991 |
| Total general revenue | | | | | 110,614,601 | 1,083,888 |
| Change in net assets | | | | | 12,950,410 | (15,179) |
| Net assets, beginning of year, as previously reported | | | | | 101,219,058 | 528,419 |
| Prior period adjustments (Note 20) | | | | | (1,740,335) | |
| Net assets, beginning of year, as restated | | | | | 99,478,723 | 528,419 |
| Net assets, end of year | | | | | \$ 112,429,133 | \$ 513,240 |

**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Balance Sheet
Governmental Funds
June 30, 2012**

| | <u>General Fund</u> | <u>Capital Projects Fund Bond Issues</u> | <u>Debt Service Fund</u> | <u>Health and Human Services Grants</u> | <u>Workforce Investment Act Grants</u> | <u>Housing & Urban Development Grants</u> | <u>Other Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|------------------------------|---|--|---|------------------------|---|
| Assets | | | | | | | | |
| Cash (Note 2) | \$ 5,121,046 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,121,046 |
| Accounts receivable net (Note 3): | | | | | | | | |
| Municipal licenses tax | 392,190 | | | | | | | 392,190 |
| Sales tax | 954,718 | | | | | | | 954,718 |
| Landfill | 129,894 | | | | | | | 129,894 |
| Others | 610,854 | 6,039,577 | | 527,544 | | 1,480,055 | 74,832 | 8,732,862 |
| Due from central government (Note 4) | 1,613,763 | | 490,795 | | | | 418,027 | 2,522,585 |
| Due from federal government (Note 4) | 46,564 | | | 777,960 | 2,074,813 | 4,903,972 | 2,358,934 | 10,162,243 |
| Due from other funds (Note 5) | 833,349 | | | 46,519 | 6,037 | 202,562 | 602,064 | 1,690,531 |
| Restricted cash: | | | | | | | | |
| Cash and cash equivalents (Note 2) | 8,525,949 | | 34,640 | 73,402 | 41,212 | 3,956,558 | 5,082,832 | 17,714,593 |
| Cash and cash equivalents with fiscal agent (Note 2) | 6,157,798 | 13,800,050 | 28,347,309 | | | | 1,050,937 | 49,356,094 |
| Total assets | <u>\$ 24,386,125</u> | <u>\$ 19,839,627</u> | <u>\$ 28,872,744</u> | <u>\$ 1,425,425</u> | <u>\$ 2,122,062</u> | <u>\$ 10,543,147</u> | <u>\$ 9,587,626</u> | <u>\$ 96,776,756</u> |

**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Balance Sheet (Continued)
Governmental Funds
June 30, 2012**

| | <u>General Fund</u> | <u>Capital Projects Fund Bond Issues</u> | <u>Debt Service Fund</u> | <u>Health and Human Services Grants</u> | <u>Workforce Investment Act Grants</u> | <u>Housing & Urban Development Grants</u> | <u>Other Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|------------------------------|---|--|---|------------------------|---|
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities : | | | | | | | | |
| Accounts payable and accrued liabilities (Note 7) | \$ 17,895,353 | \$ 4,162,267 | \$ - | \$ 826,723 | \$ 130,834 | \$ 1,926,713 | \$ 1,839,475 | \$ 26,781,365 |
| Due to other governmental entities (Note 10) | 7,633,671 | | | | | 1,092 | | 7,634,763 |
| Due to other funds (Note 5) | 1,025,324 | 10,137 | | 65,651 | | 126,941 | 462,478 | 1,690,531 |
| General obligations: | | | | | | | | |
| Bonds | | | 8,438,000 | | | | | 8,438,000 |
| Accrued interest | | | 2,866,511 | | | | | 2,866,511 |
| Deferred revenues (Note 12): | | | | | | | | |
| Municipal license tax | 16,301,577 | | | | | | | 16,301,577 |
| Federal government | | | | 450,865 | 1,991,228 | 747,532 | 2,721,917 | 5,911,542 |
| Others | 10,989 | | | | | 6,171 | 101 | 17,261 |
| Total liabilities | <u>42,866,914</u> | <u>4,172,404</u> | <u>11,304,511</u> | <u>1,343,239</u> | <u>2,122,062</u> | <u>2,808,449</u> | <u>5,023,971</u> | <u>69,641,550</u> |
| Fund (deficit) balances: | | | | | | | | |
| Reserved for: | | | | | | | | |
| Restricted | 16,731,877 | 15,667,223 | 17,568,233 | 82,186 | - | 7,734,698 | 4,563,655 | 62,347,872 |
| Committed | 162,108 | | | | | | | 162,108 |
| Unassigned | <u>(35,374,774)</u> | | | | | | | <u>(35,374,774)</u> |
| Total fund balances (deficit) | <u>(18,480,789)</u> | <u>15,667,223</u> | <u>17,568,233</u> | <u>82,186</u> | <u>2,122,062</u> | <u>7,734,698</u> | <u>4,563,655</u> | <u>27,135,206</u> |
| Total liabilities and fund balances | <u>\$ 24,386,125</u> | <u>\$ 19,839,627</u> | <u>\$ 28,872,744</u> | <u>\$ 1,425,425</u> | <u>\$ 2,122,062</u> | <u>\$ 10,543,147</u> | <u>\$ 9,587,626</u> | <u>\$ 96,776,756</u> |

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, 2012

| | General Fund | Capital Projects Fund Bonds Issues | Debt Service Fund | Health and Human Services Grants | Workforce Investment Act Grants | Housing & Urban Development Grants | Other Funds | Total Governmental Funds |
|---|--------------------|--|----------------------|--|---------------------------------------|--|------------------|--------------------------------|
| Revenues | | | | | | | | |
| Property taxes (Note 8) | \$ 31,382,849 | \$ - | \$ 14,562,539 | \$ - | \$ - | \$ - | \$ - | \$ 45,945,388 |
| Municipal license taxes (Note 3) | 20,613,936 | | | | | | | 20,613,936 |
| Sales tax (Note 9) | 13,530,775 | | 2,435,052 | | | | | 15,965,827 |
| Royalties and others | 1,208,856 | | | | | | | 1,208,856 |
| Licenses, permits and other local taxes | 6,376,789 | | | | | | | 6,376,789 |
| Charges for services and rents | 1,413,495 | | | | | | 14,028 | 1,427,523 |
| Fines and forfeitures | 396,000 | | | | | | | 396,000 |
| Interest | 240,861 | 706,931 | 19,832 | | | 38,200 | 212,095 | 1,217,919 |
| Intergovernmental revenue (Note 11): | | | | | | | | |
| State Contributions | 38,753,006 | | | | | | 3,223,423 | 41,976,429 |
| Federal grants and contributions | 38,761 | | | 14,267,416 | 2,734,499 | 17,553,949 | 3,403,572 | 37,998,197 |
| Others | 1,502,935 | | | | | 164,410 | 19 | 1,667,364 |
| Total revenues | 115,458,263 | 706,931 | 17,017,423 | 14,267,416 | 2,734,499 | 17,756,559 | 6,853,137 | 174,794,228 |
| Expenditures | | | | | | | | |
| Current: | | | | | | | | |
| General government | 58,888,897 | | | | | | 192,092 | 59,080,989 |
| Public safety | 12,336,443 | | | | | | 1,243,783 | 13,580,226 |
| Public works | 21,626,730 | | | | | | 125,760 | 21,752,490 |
| Culture and recreation | 9,190,544 | | | | | | | 9,190,544 |
| Health and welfare | 10,416,172 | | | 1,995,631 | | 10,960,239 | 1,271,304 | 24,643,346 |
| Urban development | 99,525 | | | | | 6,500,233 | 1,148,882 | 7,748,640 |
| Education | 2,998,028 | | | 13,011,005 | | | 12,354 | 16,021,387 |
| Training and employment | 168,853 | | | | 3,167,606 | | 19,646 | 3,356,105 |
| Capital outlays: | | | | | | | | |
| Special Communities | 2,577,385 | | | | | | 4,158 | 2,581,543 |
| Projects | 6,539,837 | 5,510,301 | | | | | 4,609,658 | 16,659,796 |
| Debt service: | | | | | | | | |
| Principal | | | 9,313,000 | | | 1,589,000 | | 10,902,000 |
| Interest | | | 8,739,594 | | | 413,726 | | 9,153,320 |
| Total expenditures | 124,842,414 | 5,510,301 | 18,052,594 | 15,006,636 | 3,167,606 | 19,463,198 | 8,627,637 | 194,670,386 |

Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2012

| | <u>General Fund</u> | <u>Capital Projects Fund Bonds Issues</u> | <u>Debt Service Fund</u> | <u>Health and Human Services Grants</u> | <u>Workforce Investment Act Grants</u> | <u>Housing & Urban Development Grants</u> | <u>Other Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|---|------------------------------|---|--|---|------------------------|---|
| Excess (deficiency) of revenues over (under) expenditures | (9,384,151) | (4,803,370) | (1,035,171) | (739,220) | (433,107) | (1,706,639) | (1,774,500) | (19,876,158) |
| Other financing sources (uses) | | | | | | | | |
| Transfers in | - | 3,212,130 | 3,904,313 | 795,831 | 433,107 | 11,709 | | 8,357,090 |
| Transfers out | (7,404,672) | (706,932) | (13,552) | | | (12,478) | (219,456) | (8,357,090) |
| Long-term debt issued | 15,254,000 | 9,905,000 | | | | | | 25,159,000 |
| Bond issuance costs | (56,691) | (105,326) | | | | | | (162,017) |
| Total other financing sources (uses) | 7,792,637 | 12,304,872 | 3,890,761 | 795,831 | 433,107 | (769) | (219,456) | 24,996,983 |
| Excess (deficiency) of revenues over expenditures and other financing sources | (1,591,514) | 7,501,502 | 2,855,590 | 56,611 | - | (1,707,408) | (1,993,956) | 5,120,825 |
| Fund balance (deficit), beginning as restated | (16,889,275) | 8,165,721 | 14,712,643 | 25,575 | | 9,442,106 | 6,557,611 | 22,014,381 |
| Fund balance (deficit), ending | <u>\$ (18,480,789)</u> | <u>\$ 15,667,223</u> | <u>\$ 17,568,233</u> | <u>\$ 82,186</u> | <u>\$ -</u> | <u>\$ 7,734,698</u> | <u>\$ 4,563,655</u> | <u>\$ 27,135,206</u> |

**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
For the Year Ended June 30, 2012**

Total Fund Balances - Governmental Funds **\$ 27,135,206**

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

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

| | | |
|--------------------------------|----------------------|-------------|
| Non Depreciable Capital Assets | \$ 141,954,490 | |
| Depreciable Capital Assets | 362,724,024 | |
| Accumulated Depreciation | <u>(101,562,260)</u> | |
| Total Capital Assets | | 403,116,254 |

| | |
|---|-----------|
| Principal payment on General Obligation Bonds Payable due within one year was accumulated as payable on the Governmental Fund Financial Statements, and for Governmental Wide Financial Statement was included as part of Non-current liabilities | 8,438,000 |
|---|-----------|

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

| | | |
|---|-------------------|----------------------|
| General Bonds and Notes Payable | 209,202,000 | |
| Non - Revolving Line of Credit | 2,044,807 | |
| Property tax advances-CRIM | 84,579,946 | |
| Property tax debt | 4,067,489 | |
| US Department of Health and Human Services - Questioned Costs 2005-2006 (Payment Plan) | 427,393 | |
| US Department of Housing and Urban Development - Questioned Costs 2003-2004 (Payment Plan) | 266,976 | |
| Interest due for accounts sold-CRIM | 2,287,892 | |
| Puerto Rico Building Authority | 3,712,129 | |
| Claims and judgments | 1,072,371 | |
| Compensated Absences | <u>18,599,324</u> | |
| Total Long-Term Liabilities | | <u>(326,260,327)</u> |

Total Net Assets of governmental activities **\$ 112,429,133**

**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012**

Net Change in Fund Balances - Total Governmental Funds **\$ 5,120,825**

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

Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 33,049,419

Capital assets received as a donation are not recorded in the Governmental Funds, because current financial resources are not involved; however, the transaction must be reflected in the Government-Wide Financial Statements based on the fair value of the donated property. This is the amount of donated capital assets recorded in the current period. 459,960

Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (7,722,106)

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Change in Net Assets. (74)

The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. (15,006,000)

Principal payment on General Obligation Bonds due within one year was accumulated as payable on the Governmental Fund Financial Statement, and for Governmental Wide Financial Statement was included as Non-current liabilities. 749,000

Long-term claims and judgments are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use current financial resources. Therefore, claims and judgments are not reported as expenditures in Government Funds. The following amount represent the change in long-term claims and judgments from prior year. 174,338

**Commonwealth of Puerto Rico
Autonomous Municipality of Ponce
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities (Continued)
For the Year Ended June 30, 2012**

| | |
|---|-----------------------------|
| Repayment of long term property tax advance debt is an expenditure in Governmental Funds, but the repayment reduce long-term property tax advance debt in the Government-Wide Statement of Net Assets. The following amount represent the change in long-term property tax advance debt from prior year. | (2,717,605) |
| Repayment of long term interest due for accounts sold-CRIM is an expenditure in Governmental Funds, but the repayment reduce long-term property tax advance debt in the Government-Wide Statement of Net Assets. The following amount represent the change in long-term interest due for accounts sold-CRIM from prior year. | 114,395 |
| Repayment of long term Retirement System Administration (RSA) is an expenditure in Governmental Funds, but the repayment reduces long term RSA in the Government-Wide Statement of Net Assets. The following amount represent the change in long term RSA debt from prior year. | 1,660,002 |
| Repayment of US Department of Health and Human Services - Questioned Costs 2005-2006 (Payment Plan) | 137,313 |
| Repayment of US Department of Housing and Urban Development - Questioned Costs 2003-2004 (Payment Plan) | (77,930) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds. (Non-revolving Line of Credit) | (2,044,807) |
| Repayment of long term Land Information Management System (LIMS) debt is an expenditure in Governmental Funds, but the repayment reduces long term LIMS debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period. | 246,857 |
| Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated were not reported as expenditures in Governmental Funds. The following amount represents the change in long-term compensated absences from prior year. | (1,193,177) |
| Change in Net Assets of Governmental Activities | <u><u>\$ 12,950,410</u></u> |

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34: "*Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments*" This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

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

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

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

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

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

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

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

A. Reporting entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. As defined by GASB Statement No. 14, as amended by GASB Statement No. 39, component units are entities that are legally separate organizations that are included in the Municipality's reporting entity because of the significance or their operating of financial relationship with the Municipality by the nature and significance of the relationship between the entity and a primary government. The basic, but not the only criterion for including potential component units within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete.

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

- **Port of Ponce** was formed as a result of Ordinance No. 258 (Series 1911), dated November 20, 1911, and enacted by the Executive Council of Puerto Rico, which granted the Municipality authority to construct, maintain and operate a pier, on the shore of the Ponce Harbor. The operations of the port facilities are financed principally through charges to users.
- **Corporación Patronato para el Desarrollo Cultural y Turístico de Ponce, C. D. ("Patronato")** was incorporated on July 28, 1995, as special nonprofit corporation for conservation, protection and development of a museum on Castillo Serralles and Cruceta El Vigia de Ponce, which are Municipality's buildings. In February 2002, the Municipality signed a proxy contract with Patronato for custody of these municipal properties for which receives a monthly administration fee for operation of the museum. Municipal Legislature authorized the creation of a special corporation on Resolution No. 179. (Series 2001-02).

Separate financial statements of the individual component unit cannot be obtained from Port of Ponce office. The "Patronato" was prepared on September 20, 2012.

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

Port of Ponce

Road 10 final
Playa de Ponce
Ponce, Puerto Rico 00731

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

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

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

Government-wide financial statements (the *statement of net assets* and the *statement of activities*) report information of all of the nonfiduciary activities of the primary government and its component units.

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

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

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

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

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

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

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

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers most revenue to be available if collected within 90 days after of the end of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources. Modifications to the accrual basis of accounting are shown in pages 16 and 17.

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

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

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

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

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

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

The Municipality reports the following major governmental funds:

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

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

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)

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

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

Workforce Investment Act Grants ("WIA") - is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. This fund accounts for revenue sources provided by "Consejo Desarrollo Ocupacional y Recursos Humanos" (pass-through agency of US Department of Labor) to help people access the tools they need to manage their careers through information and high quality services and to help US companies find skilled workers. Under the WIA fund there are funds of The American Recovery and Reinvestment Act of 2009 ("ARRA"). ARRA is an economic stimulus package endorsed by the President of the United States of America, and approved by Congress. Its immediate goals includes the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of "accountability and transparency in government spending".

Housing & Urban Development Grants ("HUD")- is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. This fund accounts for revenue sources provided by US Housing and Urban Development Department for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low income families.

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

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

D. Assets, Liabilities and Net Assets

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

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

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

2. **Restricted assets**- Funds set aside by the governmental funds for the payment and guarantee of notes and interest payable, bonds and other specified purposes are classified as restricted assets since their use is limited for this purpose by applicable agreements or required by law.
3. **Receivables**- Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

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

4. **Inventories-** Inventories in the general fund are recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
5. **Capital assets-** Capital assets, which include land, land improvements, construction in progress, buildings, building improvements, machinery, equipment, and infrastructure (which is normally real property and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental activities and component units columns in the statement of net assets.

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

The Municipality reviews the carrying value of its long-lived capital assets for possible impairment whenever events or changes in circumstances indicated that the carrying amount of the assets might not be recoverable. Any long-lived capital assets held for disposal are reported at the lower of their carrying amounts or fair value (donated assets). The Municipality has not identified any significant impairment of its long-lived assets as of June 30, 2012.

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

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

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

6. **Works of art and historical treasures-** At June 30, 2012, the Municipality has the following work of art, historical treasures, and similar assets:
 - Centro Ceremonial Indígena de Tibes (Period 1200 AC to 1493 AC) – the collection have skeletons, charms, "petroglifos" and ceremonial park of Taino Indian culture.

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

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

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

7. **Deferred revenues-** Deferred revenue at the governmental fund level arises when potential revenue does not meet neither the “measurable” or the “available” criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received prior incurring the qualifying expenditures.
8. **Interfund receivables and payables-** The Municipality has the following types of transactions among funds:
- a. Operating transfers – Operating transfers are legally required transfers that are reported when incurred as operations transfer-in by the recipient fund and as operating transfer-out by the disbursing fund. The operating transfers are: (1) indirect cost reimbursement paid by federal grants to general fund and (2) debt service's interest revenue provided for operational activities of the general fund as established by state laws, principally.
 - b. Intra-entity transactions – Transfers between the funds of the primary government are reported as interfund transfer with receivables and payables presented as amounts due to and due from other funds.

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

9. **Fund Balances** - In the current year, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

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

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

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

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, 2012.

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

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

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

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

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

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

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

- a. **Invested in capital assets, net of related debt:** Consist of capital asset balances net of accumulated depreciation and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital assets acquisition or construction (unspent bond proceeds) and any unamortized debt issue costs.
- b. **Restricted net assets:** Represent net assets that are subject to restrictions beyond the Municipal's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).
- c. **Unrestricted net assets:** Represent net assets that do not meet the definition of net assets invested in capital assets, net of related debt or restricted. Unrestricted assets are often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them. Designations are not reported on the face statement of net assets.

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

- 11. Accounting for Pension Costs-** For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.
- 12. Risk financing-** The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("the CRIM") for the year ended June 30, 2012 amounted to approximately \$2.78 million. The current insurance policies have not been cancelled or terminated.

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

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

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2012 amounted to \$2.2 million.

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

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

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

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

Long-term obligations financed by components units are recorded as liabilities in the discretely presented component unit's column. In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

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

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

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

- 16. Post employment benefits-** Pursuant to the following Acts; No. 207 of August 13, 1995, No. 40 of June 13, 2001 and No. 157 of June 27, 2003, the Municipality is required to cover annually the 4% increase (cost of living allowance) in the retirement plan of its retirees employees. Substantially all of the employees may become eligible for these benefits if they reach normal retirement age while working for the Municipality. These benefits are recorded as expenditures when paid in the general fund.

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

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

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

19. Future adoption of accounting pronouncements- The Governmental Accounting Standards Board has issued the following statements that have effective dates after June 30, 2012:

- a. GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements (GASB 60). The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement is effective for periods beginning after December 15, 2011.
- b. GASB Statement No. 61, The Financial Reporting Entity: Omnibus – an amended of GASB Statements No. 14 and No. 34 (GASB No. 61). The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirement of Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis - for State and Local Governments, were amended to better meet user need and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement is effective for periods beginning after June 15, 2012.
- c. GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements; 1) Financial Accounting Standard Board (FASB) Statements and interpretations, 2) Accounting Principles Boards Opinions, 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’(AICPA) Committee on Accounting Procedures. This Statement is effective for periods beginning after December 15, 2011.
- d. GASB Statement No. 63, Financial Reporting Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.
- e. GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this Statement is to establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determinations of the major fund

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

calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

- f. GASB Statement No. 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

Post fiscal year 2012-2013

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

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

2. CASH AND CASH EQUIVALENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2012.

2. CASH AND CASH EQUIVALENTS (continued)

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, 2012, (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, 2012, 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, 2012, 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, 2012. Therefore, the Municipality's management has concluded that at June 30, 2012 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2012.

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

The Municipality's maintains balances of \$13,646,995 in the General Fund, \$34,640 in the Debt Service Fund, \$73,402 in the Health and Human Services Grants, \$41,212 in the Workforce Investments Act Grants, \$3,956,558 in the Housing & Urban Development Grants and \$5,082,832 on Others Funds. All balances are fully collateralized at June 30, 2012.

The deposits at GDB of \$6,157,798 in the General Fund, \$13,800,050 in the Capital Projects Fund, \$28,347,309 in the Debt Service Fund and \$1,050,937 in the Others Funds, are unsecured and uncollateralized, as no collateral is required to be carried by the Governmental Development Bank (GDB).

3. RECEIVABLES

A. *Municipal License Tax* - The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2012, 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, 2012, net of allowance for uncollectible accounts.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues. Accounts receivable – net of allowance for uncollectible accounts as of June 30, 2012, consists of the following:

| <u>Description</u> | <u>Gross Amount</u> | <u>Allowance</u> | <u>Net Amount</u> |
|-----------------------|-------------------------|------------------|-----------------------|
| Municipal license tax | \$ 392,190 | \$ 39,219 | \$ 352,971 |

B. *Sales tax* – sales tax receivable represents filed sales tax returns that were uncollected as of June 30, 2012, as described in Note 9.

| <u>Description</u> | <u>Gross Amount</u> | <u>Allowance</u> | <u>Net Amount</u> |
|--------------------|-------------------------|------------------|-----------------------|
| Sales tax | \$ 954,718 | \$ 95,418 | \$ 859,300 |

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4. DUE FROM GOVERNMENTAL ENTITIES

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

| <u>Central governments:</u> | <u>Amount</u> |
|--|---------------------|
| Department Economic Development and Commerce of Puerto Rico | \$ 806,273 |
| Department of Justice (Ponce en Marcha) | 740,287 |
| CRIM | 490,795 |
| Department of State Homeland Security | 54,492 |
| Department of Justice | 159,269 |
| Department of Education | 185,019 |
| Department of Labor | 66,234 |
| Family Department | 7,523 |
| Others | <u>12,693</u> |
| Total due from central government | <u>\$ 2,522,585</u> |

| <u>Federal governments:</u> | <u>Amount</u> |
|--|----------------------|
| HUD – CDBG | \$ 4,857,757 |
| Workforce Investment Act Grant | 2,074,813 |
| Federal Emergency Management Agency (FEMA) | 1,625,609 |
| Department of Justice “ARRA” | 605,045 |
| HHS - Head Start | 465,324 |
| HHS - Ryan White | 312,637 |
| Bulletproof Best Partnership | 85,829 |
| Child and Adult Care Food Program | 74,483 |
| HUD - Emergency Shelter | 30,469 |
| HUD – HOME | 15,746 |
| El Tuque Satellite Center | <u>14,531</u> |
| Total due from federal government | <u>\$ 10,162,243</u> |

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5. INTERFUND TRANSACTIONS

Due to and Due from represents short-term borrowing between funds and regular services and supplies provided but not settled at year-end. The composition of interfund balances as June 30, 2012, is as follows:

a. Due from other funds

| <u>General Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|-------------------------------|----------------------------|---------------------------|
| HUD Funds | \$ 425,283 | Reimbursable expenditures |
| HHS Funds | 232,581 | Reimbursable expenditures |
| Others Funds | <u>175,485</u> | Reimbursable expenditures |
| Sub-total general fund | <u>\$ 833,349</u> | |
| <u>HHS grants</u> | <u>Amount</u> | <u>Purpose</u> |
| General Fund | \$ 46,519 | Reimbursable expenditures |
| Sub-Total HHS grants | <u>\$ 46,519</u> | |
| <u>WIA grant</u> | <u>Amount</u> | <u>Purpose</u> |
| General Fund | \$ 6,037 | Reimbursable expenditures |
| Sub-total WIA grant | <u>\$ 6,037</u> | |
| <u>HUD grants</u> | <u>Amount</u> | <u>Purpose</u> |
| General Fund | \$ 202,562 | Reimbursable expenditures |
| Sub-total HUD grants | <u>\$ 202,562</u> | |
| <u>Others</u> | <u>Amount</u> | <u>Purpose</u> |
| General Fund | \$ 602,064 | Reimbursable expenditures |
| Sub-total Others | <u>\$ 602,064</u> | |
| Total | <u>\$ 1,690,531</u> | |

b. Due to other funds

| <u>General Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|---|----------------------------|---------------------------|
| Other Funds | \$ 799,028 | Reimbursable expenditures |
| HUD Funds | 161,824 | Reimbursable expenditures |
| HHS Funds | 63,058 | Reimbursable expenditures |
| WIA Fund | <u>1,414</u> | Reimbursable expenditures |
| Sub-total due to General Fund | <u>\$ 1,025,324</u> | |
| <u>Capital Projects funds</u> | <u>Amount</u> | <u>Purpose</u> |
| General Fund | \$ 10,137 | Reimbursable expenditures |
| Sub-total Capital Projects funds | <u>\$ 10,137</u> | |

5. INTERFUND TRANSACTIONS (continued)

| <u>HHS Grants</u> | <u>Amount</u> | <u>Purpose</u> |
|-----------------------------|---------------------|---------------------------|
| General Fund | \$ 65,651 | Reimbursable expenditures |
| Sub-total HHS funds | \$ 65,651 | |
| <u>HUD grants</u> | <u>Amount</u> | <u>Purpose</u> |
| General Fund | \$ 126,941 | Reimbursable expenditures |
| Sub-total HUD grants | \$ 126,941 | |
| <u>Others Grants</u> | <u>Amount</u> | <u>Purpose</u> |
| General Fund | \$ 462,478 | Reimbursable expenditures |
| Sub-total Other Fund | \$ 462,478 | |
| Total | \$ 1,690,531 | |

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6. CAPITAL ASSETS

Capital assets; those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2012, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

| Governmental Activities: | Balance July 1, 2011 | Additions | Reclassifications/ Retirements | Balance June 30, 2012 |
|--|---------------------------------|----------------------|---|----------------------------------|
| Capital asset, not being depreciated: | | | | |
| Construction in progress | \$ 64,667,163 | \$ 26,055,605 | \$ (1,759,135) | \$ 88,963,633 |
| Land | 52,990,857 | | | 52,990,857 |
| Total capital assets not being depreciated | 117,658,020 | 26,055,605 | (1,759,135) | 141,954,490 |
| Capital assets, being depreciated: | | | | |
| Buildings and building improvements | 194,036,234 | 1,007,703 | | 195,043,937 |
| Land improvements | 31,003,412 | | | 31,003,412 |
| Infrastructure and infrastructure improvements | 78,263,065 | 2,744,350 | | 81,007,415 |
| Machinery and equipment | 50,208,542 | 5,460,856 | (138) | 55,669,260 |
| Total capital assets being depreciated | 353,511,253 | 9,212,909 | (138) | 362,724,024 |
| Less accumulated depreciation for: | | | | |
| Buildings and building improvements | (36,356,584) | (3,914,948) | | (40,271,532) |
| Land improvements | (3,505,407) | (718,401) | | (4,223,808) |
| Infrastructure and infrastructure improvements | (13,148,981) | (1,527,506) | | (14,676,487) |
| Machinery and equipment | (40,829,246) | (1,561,251) | 64 | (42,390,433) |
| Total accumulated depreciation | (93,840,218) | (7,722,106) | (64) | (101,562,260) |
| Total capital assets being depreciated, net | 259,671,035 | 1,490,803 | (74) | 261,161,764 |
| Governmental activities capital assets, net | \$ 377,329,055 | \$ 27,546,408 | \$ (1,759,209) | \$ 403,116,254 |

6. CAPITAL ASSETS (continued)

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

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

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012 are summarized as follows:

| <u>Funds</u> | <u>Accounts Payable</u> | <u>Accrued Liabilities</u> | <u>Total</u> |
|---|-----------------------------|----------------------------|-----------------------------|
| General fund | \$ 17,886,834 | \$ 8,519 | \$ 17,895,353 |
| Capital projects fund | 4,162,267 | | 4,162,267 |
| HHS program | 479,916 | 346,807 | 826,723 |
| WIA program | 74,145 | 56,689 | 130,834 |
| HUD program | 1,346,172 | 580,541 | 1,926,713 |
| Other governmental funds | 1,839,475 | - | 1,839,475 |
| Total on balance sheet | <u>\$ 25,788,809</u> | <u>\$ 992,556</u> | <u>\$ 26,781,365</u> |
| Plus: Obligation paid with CAE funds | | | 8,438,000 |
| Loan guarantee assistants obligation | | | 2,866,511 |
| Total on statement of net assets | | | <u>\$ 38,085,876</u> |

8. PROPERTY TAXES

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

8. PROPERTY TAXES (continued)

The assessment is made as of January 1 of each year and is based on estimated current values of the real property as of year 1957.

The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date. The rates are 8.33% for real property and 6.33% for personal property. The composition is as follows:

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

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

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

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

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

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. Total advances from CRIM as of June 30, 2012, presented as noncurrent liabilities in the government-

8. PROPERTY TAXES (continued)

wide financial statements amounted to approximately \$84.6 million of which \$1,570,781 pertain to the final liquidation of property tax advance for the fiscal year ended June 30, 2012. See information regarding property tax claim made by the Municipality to CRIM in Note 13.

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

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

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

9. SALES TAX

During the fiscal year ended June 30, 2006, the Municipal Legislature approved the Ordinance No. 76, series 2005-06 establishing a citizenship contribution of 1%, known as "Leon tax", over all transactions of sales of goods and services made on Ponce's boundaries. The contribution was effective in July 1, 2006. According to the Ordinance, these new resources will be principally used in the following activities; improvements in health services, to cover the increasing in solid waste disposal costs, public construction, security, social welfare and maintenance of culture and sport facilities.

On August 16, 2006, the Municipal Legislature approved the Ordinance no. 12, series 2006-07 increasing the citizens' contribution to 1.5% effective November 15, 2006. Pursuant to the provisions of the Law number 80 of July, 29, 2007 and effective August 1, 2007, the citizens' contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contribution of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services. The Municipality collected \$15,965,827 during the year ended June 30, 2012.

10. DUE TO GOVERNMENTAL ENTITIES

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

| <u>Governmental Entity</u> | <u>Amount</u> |
|--|----------------------------|
| Puerto Rico Electric Power Authority | \$ 2,624,171 |
| Retirement System Administration | 943,117 |
| Puerto Rico Aqueduct and Sewer Authority | 2,795,775 |
| Puerto Rico Telephone Company | 774,721 |
| Commonwealth of Puerto Rico Employee Association | 103,917 |
| US Housing and Urban Development | 8,000 |
| State Insurance Fund Corporation | 1,091 |
| US Department of Health and Human Services | 137,313 |
| Department of the Family "ASUME" | 30,530 |
| Department of Labor | 15,808 |
| General Services Administration | 6,843 |
| Human Resources Office – ORHELA | 1,700 |
| Others | <u>191,776</u> |
| Total | <u>\$ 7,634,763</u> |

11. INTERGOVERNMENTAL REVENUES

Following is detail of intergovernmental revenues:

| <u>State agencies:</u> | <u>Amount</u> |
|---|-----------------------------|
| Puerto Rico Electric Power Authority | \$ 12,726,036 |
| Puerto Rico Department of Natural Resources | 6,344,539 |
| Subsidy and Lottery of Puerto Rico – CRIM | 3,945,953 |
| Reimbursement from the Commonwealth of Puerto Rico of Christmas bonus expenditures | 1,459,605 |
| School Infrastructure Development | 884,229 |
| Department of Education | 718,080 |
| Puerto Rico Legislative Joint Resolutions | 2,901,477 |
| Department – Land Administration | 4,127,990 |
| Department of Housing and Urban Development | 5,419,008 |
| Infrastructure Financing Authority (AFI) | 211,968 |
| Department of Transportation and Public Work | 2,673,052 |
| Others | <u>564,492</u> |
| Total governmental funds | <u>\$ 41,976,429</u> |

11. INTERGOVERNMENTAL REVENUES

| <u>Federal agencies:</u> | <u>Amount</u> |
|--|-----------------------------|
| HHS – Head Start | \$ 12,572,070 |
| HUD – Section 8 Choice Voucher | 8,854,122 |
| HUD – CDBG – Entitlement | 5,904,661 |
| Department of Labor – Workforce Investment Act | 2,734,499 |
| HHS – Ryan White | 2,055,345 |
| HUD – Emergency Shelter | 398,808 |
| Department of Agriculture – USDA | 963,600 |
| Department of Justice – Homeland Security | 1,075,022 |
| Department of Justice – Anti Gang Initiative | 491,024 |
| HUD – Home Program | 1,745,717 |
| HUD – Municipal Bank (CDBG loans) | 369,497 |
| HUD – Moderate I and II | 273,388 |
| Others | <u>560,444</u> |
| Total governmental funds | <u>\$ 37,998,197</u> |

12. DEFERRED REVENUES

- A. Municipal License Tax- The deferred revenues of \$16,301,577 in the general fund relates to municipal license tax collected in fiscal year 2011-12 that will be earned in fiscal year 2012-13.
- B. Federal Grants- The deferred revenues presented in other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

| <u>Program Description</u> | <u>Amount</u> |
|--|----------------------------|
| Homeland Security | \$ 574,523 |
| Federal Emergency Management Agency (FEMA) | 879,493 |
| Department of Labor – Workforce Investment Act | 1,901,494 |
| HHS - Head Start | 450,865 |
| HUD – Home Program | 709,590 |
| Department of Agriculture – USDA | 84,206 |
| HUD – Emergency Shelter | 37,104 |
| Others | <u>1,291,528</u> |
| Total | <u>\$ 5,928,803</u> |

13. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, was as follows:

| Description | Beginning Balance (as Restated) | Borrowings or Additions | Payments or Deductions | Ending Balance | Due Within One Year |
|--|---------------------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------|
| General obligation bonds | \$ 100,390,000 | \$ 19,428,000 | \$ (5,774,000) | \$ 114,044,000 | \$ 5,234,000 |
| General refunding obligation bonds | 8,960,000 | | (300,000) | 8,660,000 | 320,000 |
| Special refunding obligations bonds | 20,175,000 | | (865,000) | 19,310,000 | 920,000 |
| Special obligation bonds | 10,210,000 | | (375,000) | 9,835,000 | 390,000 |
| Special obligation bonds - IVU | 25,235,000 | | (485,000) | 24,750,000 | 520,000 |
| Special obligation notes | 29,226,000 | 1,490,000 | (2,354,000) | 28,362,000 | 2,574,000 |
| Special obligation notes - IVU | | 4,241,000 | | 4,241,000 | 480,000 |
| Non – Revolving Line of Credit | | 2,044,807 | | 2,044,807 | |
| Property tax advance- CRIM | 84,579,946 | | | 84,579,946 | |
| Property tax debt | 1,349,884 | 3,553,817 | (836,212) | 4,067,489 | 2,541,381 |
| LIMS Refinancing debt-CRIM | 246,857 | | (246,857) | | |
| Interest due for accounts sold- CRIM | 2,402,287 | | (114,395) | 2,287,892 | 114,395 |
| Retirement System | | | | | |
| Administration (RSA) | 1,660,002 | 537,053 | (2,197,055) | | |
| US Department of Health & Human Services –Questioned Costs 2005-2006 | 564,706 | | (137,313) | 427,393 | 137,313 |
| US Department of Housing & Urban Develop. –Questioned Costs 2003-2004 | 189,046 | 85,930 | (8,000) | 266,976 | 266,976 |
| Puerto Rico Building Authority | | 3,712,129 | | 3,712,129 | 60,000 |
| Claims and judgment | 1,246,709 | 56,102 | (230,440) | 1,072,371 | 250,000 |
| Compensated absences | <u>17,406,147</u> | <u>1,670,448</u> | <u>(477,271)</u> | <u>18,599,324</u> | <u>1,315,000</u> |
| Total long term debt | <u>\$303,841,584</u> | <u>\$ 36,819,286</u> | <u>\$(14,400,543)</u> | <u>\$326,260,327</u> | <u>\$ 15,123,065</u> |

- 1. Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessed property value located within the Municipality. Before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable and notes, are paid with unrestricted funds.
- 2. Bonds Payable -** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. During the current year, the Municipality issued bonds for \$13,048,000 for operational activities and \$6,380,000 for acquisition of equipment and constructions. Outstanding bonds payable at June 30, 2012 are as follows:

13. LONG-TERM LIABILITIES (continued)

| Description | Balance at June 30, 2012 |
|--|-----------------------------|
| 1999 General obligation bond for infrastructure improvements with an original amount of \$3,020,000 due in annual installments of \$115,000 to \$320,000 through July 1, 2025, with interest ranging of 4.86% to 6.11% | \$ 615,000 |
| 2001 General obligation bond for construction, improvements and acquisition of various capital assets with an original amount of \$31,765,000 due in installments of \$435,000 to \$2,755,000, through July 1, 2025, with interest ranging from 2.70% to 6.13% | 24,530,000 |
| 2004 Special refunding obligation bond for payment of debt with an original amount of \$13,200,000 due in installments of \$250,000 to \$950,000 through July 1, 2028, with interest ranging from 2.25% to 5.55% | 10,755,000 |
| 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% | 8,660,000 |
| 2004 General bond for construction and improvements of capital assets with an original amount of \$16,295,000 due in installments of \$325,000 to \$1,250,000 through July 1, 2023, with interest ranging from 1.56% to 6% | 11,795,000 |
| 2004 Special refunding obligation bond for payment of debt with an original amount of \$12,020,000 due in installments of \$240,000 to \$995,000 through July 1, 2023, with interest ranging from 2.45% to 5.5 % | 8,555,000 |
| 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% | 3,555,000 |
| 2004 Special obligation bond for operational expenses with an original amount of \$8,015,000 due in installments of \$150,000 to \$575,000 through July 1, 2028, with interest ranging from 2.45% to 5.6% | 6,280,000 |
| 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% | 4,960,000 |
| 2007 General obligation bond for construction and improvements of capital assets with an original amount of \$10,565,000 due in installments of \$204,000 to \$963,000 through July 1, 2031, with interest ranging from 5.57% to 6.5% | 9,613,000 |
| 2007 General obligation bond for payment of operational debt with an original amount of \$7,542,000 due in annual installments of \$146,000 to \$948,000, through July 1, 2021, with interest ranging of 5.57% to 6% | 6,698,000 |
| 2008 Special obligation bond for infrastructure construction with an original amount of \$26,100,000 due in annual installments of \$415,000 to \$2,210,000 through July 1, 2032, with interest ranging of 5.4% to 7% | 24,750,000 |

13. LONG-TERM LIABILITIES (continued)

| Description | Balance at June 30, 2012 |
|--|------------------------------|
| 2010 General obligation bond for operational activities with an original amount of \$15,860,000 due in installments of \$235,000 to \$1,330,000, through July 1, 2025, with interest ranging from 4.75% to 7.50% | 15,375,000 |
| 2011 General obligation bond for construction of capital assets with an original amount of \$3,095,000 due in installments of \$45,000 to \$260,000 through July 1, 2035, with interest ranging from 6% to 7.5% | 3,050,000 |
| 2011 General obligation bond for the construction of a capital asset with an original amount of \$665,000 due in installments of \$10,000 to \$60,000 through July 1, 2035, with interest ranging from 6% to 7.50% | 655,000 |
| 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% | 4,465,000 |
| 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% | 12,860,000 |
| 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% | 2,335,000 |
| 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% | 13,048,000 |
| 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% | 3,260,000 |
| 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% | 785,000 |
| Total | <u>\$ 176,599,000</u> |

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

| Year Ending June 30, | Principal | Interest |
|-------------------------|------------------------------|------------------------------|
| 2013 | \$ 7,384,000 | \$ 10,154,518 |
| 2014 | 7,938,000 | 10,451,500 |
| 2015 | 8,145,000 | 10,128,797 |
| 2016 | 6,960,000 | 9,731,628 |
| 2017 | 7,373,000 | 9,351,169 |
| 2018-2022 | 44,840,000 | 39,167,295 |
| 2023-2027 | 44,361,000 | 24,941,851 |
| 2028-2032 | 31,315,000 | 12,377,363 |
| 2033-2037 | 18,283,000 | 2,700,263 |
| Total | <u>\$ 176,599,000</u> | <u>\$ 129,004,384</u> |

13. LONG-TERM LIABILITIES (continued)

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

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

| Type of notes | Maturity Date | Original Amount | Range of Interest Rate | Balance at June 30, 2012 |
|---|---------------|-----------------|------------------------|--------------------------|
| 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 | 9,912,000 |
| Loan guarantee assistance (LGA) notes - Series 2008-A | 8-1-15 | 3,845,000 | 8.04% to 8.19% | 2,220,000 |
| General obligation note 2010 series | 7-1-16 | 435,000 | 6.0% to 7.50% | 330,000 |
| General obligation note 2011 series | 7-1-17 | 640,000 | 6.0% to 7.50% | 565,000 |
| General obligation note 2011 series | 7-1-17 | 2,015,000 | 6.0% to 7.00% | 1,785,000 |
| General obligation note 2011 series | 7-1-17 | 3,575,000 | 6.0% to 7.50% | 3,170,000 |
| General obligation note 2012 series | 7-1-18 | 1,490,000 | 6.0% to 7.50% | 1,490,000 |
| General obligation note 2012 series | 7-1-18 | 1,005,000 | 6.0% to 7.50% | 1,005,000 |
| General obligation note 2012 series | 7-1-18 | 1,030,000 | 6.0% to 7.00% | 1,030,000 |
| General obligation note 2012 series | 7-1-18 | 2,206,000 | 6.0% to 7.50% | 2,206,000 |
| Total notes payable | | | | \$ 32,603,000 |

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

The notes, totaling \$23,691,000 is payable in annual aggregate principal installments of \$1,589,000, plus interest rates which fluctuates from 8.04% to 8.19%.

5. **General obligation note 2012 series** – During the current year, the Municipality issued note for \$1,490,000 for resurfacing of streets and construction of sidewalks. This note are payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.
6. **Special obligation notes (IVU)** – During the current year, the Municipality issued notes for \$1,005,000 for constructions of sidewalks and resurfacing of streets, \$1,030,000 purchases of equipment and \$2,206,000 for pay the debt of the Retirement System Administration. The Series 2012, amounting \$4,241,000, is payable with the revenues generated from the collection of the .3% of the municipal sales and use tax imposed by the Municipality and collected by the Puerto Rico Treasury Department.

13. LONG-TERM LIABILITIES (continued)

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

| Year Ending June 30, | Principal | Interest |
|-------------------------|----------------------|---------------------|
| 2013 | \$ 3,054,000 | \$ 1,279,462 |
| 2014 | 3,169,000 | 1,217,002 |
| 2015 | 3,289,000 | 1,084,257 |
| 2016 | 3,444,000 | 909,897 |
| 2017 | 3,014,000 | 732,309 |
| 2018-2022 | 8,273,000 | 1,879,139 |
| 2023-2027 | 5,225,000 | 892,482 |
| 2028-2032 | 3,135,000 | 151,682 |
| Total | \$ 32,603,000 | \$ 8,146,230 |

7. **Restoration of the “Antigua Plaza del Mercado” (Ponce Servicios)** - The Municipality established a non-revolving line of credit with the Government Development Bank of Puerto Rico (GDB) as of May 9, 2011, for up to \$10,000,000, plus interest, as defined in the GDB loan agreement with the Municipality. The line of credit was made available to finance the restoration of the “Antigua Plaza del Mercado”. Amounts drawn against the line of credit are repayable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the GDB for such purposes. The loan agreement bears interest at the variable prime interest rate plus 1.5% with a minimum of 6%. Maturity date is due in November 30, 2013. As of June 30, 2012, outstanding credit line balance was \$ 7,955,193, plus interest.
8. **Property Taxes Debts**- These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center (“CRIM) at June 30, 2012. The CRIM issued a settlement noting that the advances exceeded collections by \$88.6 million. In the government-wide financial statements, the entire amount has been recognized as long term debt.
9. **Retirement System Administration (RSA)** - This amount represents the balance owed to the RSA at June 30, 2012 that will be paid in accordance to the payment plan. The outstanding balance was paid entirely during fiscal year 2011-2012.
10. **US Department of Health and Human Services – Questioned Costs 2005-2006** - This amount represents the balance owed to the federal government. The balance of this debt will paid in accordance to the payment plan with operational fund (General Fund).
11. **US Department of Housing and Urban Development – Questioned Costs 2003-2004** - This amount represents the balance owed to the federal government. The balance of this debt will paid in accordance to the payment plan with operational fund (General Fund).
12. **Interest due for accounts sold-CRIM**- This amount represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center (“CRIM”) at June 30, 2012 as described in Note 8.

13. LONG-TERM LIABILITIES (continued)

13. Claims and judgments- The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred. At June 30, 2012, the outstanding balance is \$1,072,371. This amount is presented in the government-wide financial statement.

14. Compensated absences- The government-wide statement of net assets includes approximately \$18.6 million of accrued sick leave benefits and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

14. RETIREMENT PLAN

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

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

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

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

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

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

14. RETIREMENT PLAN (continued)

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

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

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

Funding Policy

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

Contribution requirements are established by law and are as follows:

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

14. RETIREMENT PLAN (continued)

Annual Contribution

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

| Fiscal year | Law No. 447 | System 2000 |
|--------------------|--------------------|--------------------|
| 2012 | \$ 2,164,272 | \$ 2,027,251 |
| 2011 | \$ 2,162,594 | \$ 1,948,893 |
| 2010 | \$ 2,219,223 | \$ 1,966,810 |

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

Additional information on the retirement System is provided in its financial statements for the year ended June 30, 2012, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

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15. FUND BALANCE (DEFICIT)

As of June 30 2012, fund balance (deficit) is comprised of the following:

| FUND BALANCE (DEFICIT) | GENERAL FUND | CAPITAL PROJECTS FUND- BOND ISSUES \$36.4M | DEBT SERVICE FUND | HEALTH AND HUMAN SERVICES FUND GRANTS | WORKFORCE INVESTMENT ACT GRANTS | HOUSING & URBAN DEVELOPMENT GRANTS | OTHER FUNDS | TOTAL GOVERNMENTAL FUNDS |
|-------------------------------------|-------------------------------|---|------------------------------|--|--|---|----------------------------|---|
| Restricted for: | | | | | | | | |
| General Government | \$ 5,023 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,023 |
| Public Safety | 12,465 | | | | | | 35,896 | 48,361 |
| Public Works | 8,870,479 | | | | | | | 8,870,479 |
| Health and Welfare | | | | | | 3,256,812 | | 3,256,812 |
| Urban Development | 1,013,871 | | | | | 4,477,886 | 380,388 | 5,872,145 |
| Education | | | | 82,186 | | | 35,248 | 117,434 |
| Special Communities | 570,684 | | | | | | | 570,684 |
| Capital Projects | 6,259,355 | 15,667,223 | | | | | 4,112,123 | 26,038,701 |
| Debt Service | | | 17,568,233 | | | | | 17,568,233 |
| Committed: | | | | | | | | |
| General Government | 2,601 | | | | | | | 2,601 |
| Culture and Recreation | 159,507 | | | | | | | 159,507 |
| Unassigned | <u>(35,374,774)</u> | | | | | | | <u>(35,374,774)</u> |
| Total Fund Balance (Deficit) | <u>\$ (18,480,789)</u> | <u>\$ 15,667,223</u> | <u>\$ 17,568,233</u> | <u>\$ 82,186</u> | <u>\$ -</u> | <u>\$ 7,734,698</u> | <u>\$ 4,563,655</u> | <u>\$ 27,135,206</u> |

16. RISK MANAGEMENT

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

17. COMMITMENTS

Primary Government

Operating lease & Construction

The Municipality leases real property, buildings, vehicles and equipment under several operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenditures recorded in the basic financial statements for the year ended June 30, 2012, amounted to approximately \$2.1 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, 2012 of approximately \$38 million for the construction, improvements, or renovation of several municipal facilities.

Other Commitments:

At June 30, 2012, the general fund had commitments of approximately \$3.2 million for purchases orders or contracts that will be honored during the subsequent year.

18. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2012, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the grating agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

18. CONTINGENCIES, LIABILITIES FOR CLAIMS AND JUDGMENTS (continued)

B. Claims and lawsuits

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the advice of the legal counsel, that the probable claims against the Municipality not covered by insurance are by the amount of \$1.1 million at June 30, 2012.

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

Municipality of Ponce vs. "CRIM"

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

19. CLOSURE AND POST CLOSURE CARE COST AND LANDFILL OBLIGATIONS

In accordance with Statement No. 18 of the "GASB", "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", the Municipality obtained a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. As of June 30, 2012, the estimated remaining life was approximately 6.5 years.

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

The agreement includes the extension and amendment of lease of land common and structures known as "Facilidades del Garage El Tuque" for a period of ten (10) years incidental with the agreement of gather transportation and disposal of non-hazardous waste. In addition, the contractor is liable to comply with laws, rules, municipal ordinances, regulations of JCA (Junta de Calidad Ambiental) and EPA (Agencia Federal de Proteccion Ambiental). The charge for service amount ranges from \$6.26 per residential unit, in the first year, to \$7.40 in the final year of the agreement. For school facilities the charges ranges from \$150 in the first year, to \$179.26 in the final year of the contract. This amounts are payable monthly to the contractor, and services for public housing are to be free of charges.

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

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

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

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20. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

| | GENERAL FUND | CAPITAL PROJECTS FUND- BOND ISSUES | DEBT SERVICE FUND | HEALTH AND HUMAN SERVICES FUND GRANTS | WORKFORCE INVESTMENT ACT GRANTS | HUD GRANTS | OTHER FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|-----------------------|--|----------------------|---|---------------------------------------|---------------------|---------------------|--------------------------------|
| Fund balance, as previously reported, June 30, 2011 | <u>\$(22,017,961)</u> | <u>\$ 8,165,721</u> | <u>\$ 14,712,643</u> | <u>\$ 25,575</u> | <u>\$ -</u> | <u>\$ 9,442,106</u> | <u>\$ 8,454,124</u> | <u>\$18,782,208</u> |
| Reclassification from Fund Financial Statements to Government Wide Financial Statements "Puerto Rico Building Authority" (Payment Plan). | 4,264,832 | | | | | | | 4,264,832 |
| Reclassification from Fund Financial Statements to Government Wide Financial Statements "Retirement System Administration" (RSA) (Payment Plan). | <u>863,854</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>863,854</u> |
| Fund balance, beginning as, restated | <u>\$(16,889,275)</u> | <u>\$ 8,165,721</u> | <u>\$ 14,712,643</u> | <u>\$ 25,575</u> | <u>\$ -</u> | <u>\$ 9,442,106</u> | <u>\$ 8,454,124</u> | <u>\$23,910,894</u> |

B. GOVERNMENTAL-WIDE FINANCIAL STATEMENTS

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

| <u>Description</u> | <u>Total</u> |
|---|-----------------------------|
| Net assets, beginning | \$ 101,219,058 |
| Adjustments related to "Puerto Rico Building Authority and "Retirement System Administration" (RSA) debts. | <u>(1,740,335)</u> |
| Net assets, beginning as restated | <u>\$ 99,478,723</u> |

21. SUBSEQUENT EVENTS

On December 28, 2012, the Municipal Legislature approved an increase in the tax rates for real and personal property. The Additional Special Contribution tax rate will increase from 2.50% to 3.50% for real property, and for personal property. The new tax rates will apply on January 1, 2013, and on July 1, 2013 the CRIM will begin its billings and collections.

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| | Budgeted Amounts | | Actual Amounts | Variance with |
|---|--------------------|--------------------|-----------------------------------|--|
| | Original | Final | (Budgetary Basis) (See Note 1) | Final Budget Positive (Negative) |
| REVENUES: | | | | |
| Property taxes | \$ 36,409,010 | \$ 36,409,010 | \$ 31,382,849 | \$ (5,026,161) |
| Municipal license tax | 24,470,000 | 24,470,000 | 20,613,936 | (3,856,064) |
| Sales tax | 16,994,917 | 16,994,917 | 13,530,775 | (3,464,142) |
| Licenses, permits and other local taxes | 8,520,000 | 8,520,000 | 5,849,904 | (2,670,096) |
| Royalties and others | 2,300,000 | 2,300,000 | 1,208,856 | (1,091,144) |
| Charges for services | 1,245,000 | 1,245,000 | 1,400,795 | 155,795 |
| Intergovernmental – State Contributions | 16,862,781 | 16,862,781 | 18,131,675 | 1,268,894 |
| Fines and forfeiture | 950,000 | 950,000 | 396,000 | (554,000) |
| Interest | 352,900 | 352,900 | 124,526 | (228,374) |
| Miscellaneous | 3,975,570 | 3,975,570 | 1,215,935 | (2,759,635) |
| Total revenues | 112,080,178 | 112,080,178 | 93,855,251 | (18,224,927) |
| EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES: | | | | |
| Current: | | | | |
| General government | 57,867,339 | 57,867,339 | 54,587,175 | 3,280,164 |
| Public safety | 13,925,216 | 13,925,216 | 12,290,491 | 1,634,725 |
| Public works | 19,295,370 | 19,295,370 | 20,315,854 | (1,020,484) |
| Health and welfare | 6,115,993 | 6,115,993 | 10,412,896 | (4,296,903) |
| Culture and recreation | 8,041,506 | 8,041,506 | 9,134,797 | (1,093,291) |
| Urban development | 3,153,253 | 3,153,253 | 1,480,535 | 1,672,718 |
| Education | 1,784,476 | 1,784,476 | 1,319,108 | 465,368 |
| Operational Transfer to Debt Service Fund | 1,897,025 | 1,897,025 | 1,897,025 | - |
| Total expenditures, encumbrances and other financing uses | 112,080,178 | 112,080,178 | 111,437,881 | 642,297 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES) | | | \$ (17,582,630) | \$ (17,582,630) |
| Explanation of Differences: | | | | |
| Sources/inflows of resources: | | | | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | | | | \$ 93,855,251 |
| Differences-budget to USGAAP: | | | | |
| Non-budgeted revenues | | | | 21,603,012 |
| Loan proceed, net of bond issuance cost | | | | 15,197,309 |
| Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances | | | | \$ 130,655,572 |
| Uses/outflows of resources: | | | | |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule | | | | \$ 111,437,881 |
| Differences-budget to USGAAP: | | | | |
| Non-budgeted expenditures | | | | 17,370,468 |
| Non-budgeted transfer-out | | | | 5,507,647 |
| Prior year encumbrances recorded as current year expenditures for USGAAP basis | | | | 1,253,959 |
| Current year encumbrances recorded as expenditures for budgetary purposes | | | | (3,322,869) |
| Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances | | | | \$ 132,247,086 |

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2012 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2012.

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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 | \$ 965,158 |
| Total U.S. Department of Agriculture | | | 965,158 |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| <u>Direct Programs:</u> | | | |
| CDBG – Entitlement Grants Cluster: | | | |
| Community Development Block Grant – Entitlement Program | 14.218 | | 5,884,368 |
| Community Development Block Grant – ARRA (CDBG-R) (Recovery Act Funded) | 14.253 | | 23,212 |
| Emergency Shelter Grants Program | 14.231 | | 398,831 |
| Subtitle of Title IV –Vento Homeless Assistance (Shelter Plus) | 14.238 | | 28,309 |
| Community Development Block Grants – Section 108 Loan Guarantees | 14.248 | | 2,121,169 |
| Home Investment Partnerships Program | 14.239 | | 1,755,599 |
| Section 8 Housing Choice Vouchers | 14.871 | | 10,686,850 |
| Section 8 - project- Based Cluster: | | | |
| Lower Income Housing Assistance Programs | | | |
| Section 8 - Moderate Rehabilitation I | 14.856 | | 25,103 |
| Section 8 - Moderate Rehabilitation II | 14.856 | | 248,285 |
| Total U.S. Department of Housing and Urban Development | | | 21,171,726 |
| U.S. DEPARTMENT OF JUSTICE | | | |
| Pass-through Commonwealth of Puerto Rico | | | |
| Recovery Act – Public Safety Partnership and Community Policing Grants | 16.710 | 2009-RJ-WX-0075 | 17,169 |
| Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program | 16.803 | 2009-SU-B9-0053 | 109,898 |
| Total U.S. Department of Justice | | | 127,067 |
| U.S. DEPARTMENT OF LABOR | | | |
| Pass-through Programs: | | | |
| Commonwealth of Puerto Rico Department of Labor (Council of Occupational Development and Human Resources): | | | |
| Workforce Investment Act Cluster: | | | |
| Adult Program | 17.258 | | 1,550,194 |
| Youth Activities | 17.259 | | 1,007,782 |
| Dislocated Workers | 17.260 | | 609,630 |
| Total Workforce Investment Act | | | 3,167,606 |

| Federal Grantor/ Pass-through Grantor/Program or cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|---|----------------------------|---|-----------------------------|
| U.S. DEPARTMENT OF TRANSPORTATION – (NHTSA) | | | |
| Pass-through Commonwealth of Puerto Rico-Police Department | | | |
| State and Community Highway Safety | | | |
| – Community Program | 20.600 | | 15,643 |
| Alcohol Open Container Requirements | | | |
| – Continued Traffic Enforcement | 20.607 | 2007-03-60 | 3,811 |
| Total U.S. Department of Transportation – (NHTSA) | | | 19,454 |
| U.S. DEPARTMENT OF ENERGY | | | |
| Direct Program: | | | |
| American Recovery and Reinvestment Act 2009: Energy Efficiency and Conservation Block Grant Program (EECBG) | 81.128 | | 1,148,882 |
| Total U.S. Department of Energy | | | 1,148,882 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Direct Programs: | | | |
| Administration for Children, Youth and Families | | | |
| Head Start Cluster: | | | |
| Head Start Program | 93.600 | | 13,011,005 |
| HIV Emergency Relief Project Grants | 93.914 | | 1,995,631 |
| Total U.S. Department of Health and Human Services | | | 15,006,636 |
| U.S. DEPARTMENT OF HOMELAND SECURITY | | | |
| Pass-through Commonwealth of Puerto Rico – Emergency Management Agency | | | |
| Disaster Recovery Assistance | 97.036 | | 35,000 |
| Disaster Grants – Public Assistance | 97.036 | FEMA 1798-DR-PR FEMA 1798-DR-PR | 328,052 |
| Pass-through Commonwealth of Puerto Rico – Department of Justice: | | | |
| Port Security Grant Program | 97.056 | 2008-GB-T8-K116 2005-GE-T5-4009 | 4,751 |
| Homeland Security Grant Program | 97.067 | 2008-GE-T8-0001 | 841,773 |
| Total U.S. Department of Homeland Security | | | 1,209,576 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 42,816,105 |

1. SIGNIFICANT ACCOUNTING POLICIES

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

2. BASIS OF PRESENTATION:

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

| | <u>Expenditures</u> |
|--|----------------------|
| Total federal expenditures per schedule | <u>\$ 42,816,105</u> |
| Federal expenditures per basic financial statements included herein: | |
| Health and Human Services Grants | \$ 15,006,636 |
| Workforce Investment Act Grants | 3,167,606 |
| Housing and Urban Development Grants | 21,171,716 |
| Others | <u>3,470,147</u> |
| Total | <u>\$ 42,816,105</u> |

3. SUBRECIPIENTS ENTITIES (FUNDS PROVIDED)

During the fiscal year ended June 30, 2012, the Municipality provided the following federal funds to sub recipient's entities:

| | |
|---|---------------------|
| HIV Emergency Relief Project Grants (93.914) | \$ 1,615,222 |
| Community Development Block Grant (CDBG) – Entitlement (14.218) | <u>382,674</u> |
| Total | <u>\$ 1,997,896</u> |

4. SECTION 108 LOAN PAYMENTS

For the fiscal year ended June 30, 2012, 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

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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Ponce, Puerto Rico, (Municipality)** as of and for the year ended June 30, 2012, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated March 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the **Municipality** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the **Autonomous Municipality of Ponce's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Autonomous Municipality of Ponce's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Ponce's** internal control over financial reporting.

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.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs, as items **12-01** thru **12-04**, that we consider to be significant deficiencies in internal control over financial reporting. 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Autonomous Municipality of Ponce's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated March 28, 2013.

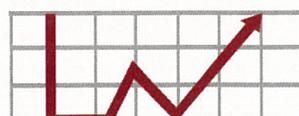
The **Autonomous Municipality of Ponce's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the **Autonomous Municipality of Ponce's** response and, accordingly, we express no opinion on it.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 28, 2013

Stamp No. 2632133 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

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

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

Compliance

We have audited the **Autonomous Municipality of Ponce's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Autonomous Municipality of Ponce's** major federal programs for the year ended June 30, 2012. The **Autonomous Municipality of Ponce's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant applicable to each of its major federal programs is the responsibility of the **Autonomous Municipality of Ponce's** management. Our responsibility is to express an opinion on the **Autonomous Municipality of Ponce's** compliance based on our audit.

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

As described in items in **12-10** thru **12-22** in the accompanying schedule of findings and questioned costs the **Autonomous Municipality of Ponce** did not comply with requirements regarding allowable costs / cost principles, cash management, earmarking, procurement and suspension and debarment, and reporting that are applicable to Head Start Cluster [Head Start Program (CFDA No. 93.600)]; with requirements regarding eligibility, and reporting that are applicable to Section 8 Housing Choice Voucher (CFDA No. 14.871), and with requirements regarding reporting and Davis Bacon Act that are applicable to Home Investment Partnership Program (14.239). Compliance with such requirements is necessary, in our opinion, for the **Autonomous Municipality of Ponce** to comply with the requirements applicable to those programs.

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

In our opinion, except for the noncompliance described in the preceding paragraph, the **Municipality** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **12-05** thru **12-09**, **12-23** and **12-24**.

Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **12-10**, **12-13** thru **12-15**, **12-17**, **12-18** and **12-20** thru **12-22** to be material weaknesses.



López-Vega, CPA, PSC

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

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned cost as items; **12-05** thru **12-09**, **12-11**, **12-12**, **12-16**, **12-19**, **12-23** and **12-24** to be significant deficiencies.

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Autonomous Municipality of Ponce** in a separate letter dated March 28, 2013.

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 28, 2013

Stamp No. 2632134 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal awards

| | | |
|---|--|---------------|
| Internal Control over major programs: | | |
| Material weakness identified? | Yes X | No |
| Significant deficiencies identified not considered to be material weaknesses? | Yes X | None reported |
| Type of auditor’s report issued on compliance for major programs: | Unqualified, except for qualified for Head Start Cluster (93.600); Section 8 Housing Choice Vouchers (14.871); Home Investment Partnership Program (14.239) | |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | Yes X | No |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|-------------|--|
| | CDBG – Entitlement Grants Cluster: |
| 14.218 | Community Development Block Grant – Entitlement Program |
| 14.253 | Community Development Block Grant ARRA (CDBG-R) -(Recovery Act Funded) |
| 14.239 | Home Investment Partnership Program |
| 14.248 | Community Development Block Grant – Section 108 Loan Guarantees |
| 14.871 | Section 8 Housing Choice Vouchers |
| | Work force Investment Act Cluster: |
| 17.258 | Adult Program |
| 17.259 | Youth Activities |
| 17.260 | Dislocated Workers |
| | Head Start Cluster: |
| 93.600 | Head Start Program |
| 93.914 | HIV Emergency Relief Project Grants |

Dollar threshold used to distinguish
Between Type A and Type B programs \$1,284,483

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statements Findings

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

Finding Reference **12-01**

Requirement **Operating deficit of general fund**

Statement of Condition 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.

Criteria Article 7.011, Section (a) of Autonomous Municipal Act (Law 81) establishes that if the Municipality close its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year. Section (b) establishes among other things, that provides that accrued deficit in the Municipality, by public debt, will be amortized in a period of 40 years. The equivalent amortization amount will be established in an expenditures account in the annual budget known as accrued deficit which will be indicated in the chart of accounts.

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

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 the office Budgeting Division and Municipal Revenue Collection Center. Therefore, the Municipality enters into purchases and contracts exceeding the actual taxes revenues earned and collected. The budgeting system does not reflect actual revenues and therefore cannot prevent the obligation of expenditures for which current resources will not be available. The overstatement of estimated revenues and the incurrence of obligations without available credit caused the Municipality to operate with a deficit.

Effect of Condition The Municipality did not comply with the Article 7.011, Section (a), Article 8.004 (b) and Section 3 of the revised regulation over basic Standard for Municipalities of Puerto Rico.

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

Section II – Financial Statements Findings

Finding Reference 12-01 (continued)

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

Questioned Costs None

**Management Response
and Corrective Action**

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

- Beginning on March 2013 a labor reduction policy was implemented consisting in reducing to all employees, two (2) labor days per month and 5% of reduction in the salaries for Department Directors and confidence personnel.
- An early termination was declared to all appointment in the transitory and irregular service, except some positions necessary to guarantee the continuity of public services.
- Beginning on February 2013, a reduction of 5% of the contract amount was established to all provider or professional services.
- A provision for deficit reserve of \$50,000 was included in the municipal budget of the fiscal year 2012-2013.

Partially Corrected

Implementation Date: During Fiscal Year 2012-2013

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

Section II – Financial Statements Findings

| | |
|-------------------------------|--|
| Finding Reference | 12-02 |
| Requirement | Financial Reporting – Accounting Records |
| Statement of Condition | <p>During our examination of the Municipality’s accounting system, we noted that the Municipality does not have accounting practices and internal controls established to provide for the preparation, on a timely basis, of financial statements in accordance with generally accepted accounting principles. Currently, the accounting system only provides for the recording of revenues, expenditures and limited number of others transactions like account payables and obligations. Therefore, the general- purpose financial statements must be prepared using the financial information obtained from various departments and accounting records, and these records required significant adjustments to present the financial position and results of operations in conformity with generally accepted accounting principles. Also, the accounting data requires several reporting adjustments to produce government wide financial statements.</p> <p>Due to these deficiencies, there were significant differences between the records kept at the accounting department and those kept for the federal programs. Financial reports for all fund types showing the financial position and results of the operations following generally accepted accounting principles are only prepared at the time of the annual audit.</p> <p>In addition, the Municipality does not maintain adequate records of outstanding long-term obligations.</p> |
| Criteria | Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Law, indicates that the accounting management system established in the Municipality should provide adequate and effective financial information for management decisions and in accordance with accounting principles general accepted in the United States of America and established by governmental accounting standard board. |
| Cause of Condition | The Municipality did not establish effective internal control over the transactions recorded on its accounting records. |
| Effect of Condition | The Municipality accounting system did not provide updated and complete financial information to present the financial position. Also, the lack of training of the accounting personnel for the preparation of complex reports, i.e. annual financial statements could restrict the adequate response of management in financial public affair issues. |
| Recommendation | We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc. |
| Questioned Costs | None |

Section II – Financial Statements Findings

Finding Reference **12-02 (continued)**

**Management Response
and Corrective Action**

Due to the difficult financial situation actually faced by the Municipality, the acquisition of a new mechanized accounting system or the updating of the existing system has been postponed.

However, in order to achieve an accounting system that provide updated and complete financial information, the Finance and Budget Director will establish internal control and procedures to maintain an accounting system containing information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.

Still in process

Implementation Date: During Fiscal Year 2012-2013

Responsible Person: Mrs. Ramona Pacheco, Finance and Budget Director and Mr. Carlos Colón, Director of the Information System Department

Section II – Financial Statements Findings

Finding Reference **12-03**

Requirement **Reconciliation Procedures – Federal Programs**

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

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

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

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

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

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

Section II – Financial Statements Findings

Finding Reference 12-03 (continued)

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

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

Questioned Costs None

Management Response and Corrective Action The Finance and Budget Director 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.

Still in process

Implementation Date: During Fiscal Year 2013-2014

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

Section II – Financial Statements Findings

| | |
|--|--|
| Finding Reference | 12-04 |
| Requirement | Municipal license tax revenues |
| Statement of Condition | 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. |
| Criteria | Article 8.004(b) of Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) states that the Municipality cannot use or obligate any amount in a given fiscal year that exceeds the appropriations and the resources authorized by ordinance or resolution for such fiscal year. In addition, the Municipality cannot be committed, in any form, to any contract or negotiation for the future payment of amounts that exceed the current fiscal year's budgeted resources. |
| Cause of Condition | The foregoing condition is primarily due to the facts that the Municipality does not prepare cash flows forecasts and projections to anticipate any cash flows shortage. Management does not have timely and accurate information regarding its operations and cannot monitor the adherence to the established budget appropriations and cash flows. |
| Effect of Condition | This situation will result in possible significant general fund limitations and eventual reduction or elimination of municipal services since future revenues were used to pay for accumulated liabilities. |
| Recommendation | We recommend the Municipality to prepare cash flows forecasts and projections to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of the current fiscal year. |
| Questioned Costs | None |
| Management Response and Corrective Action | With the implementation of corrective actions taken to the Finding 12-01, we expect to avoid or, at least, reduce the use of the license tax revenues collected in advance, in future fiscal years. |
| | Partially Corrected |
| | Implementation Date: During Fiscal Year 2011-2012 |
| | Responsible Person: Mrs. Ramona Pacheco, Finance and Budget Director |

Section III – Major Federal Award Program Findings and Questioned Costs

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

Finding Reference **12-05**

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

Requirement **Cash Management (C)**

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

- a) In seven (7) fund requisitions for \$340,103.54, we observed that the Municipality made the disbursements between seven (7) to eighteen (18) days after the deposits;
- b) One (1) requisition of fund did not include the signature of the Program Officer who verified and approved the request.
- c) The bank reconciliations, shows average monthly cash balance of \$42,361 in the CDBG – Entitlement Bank Account. The cash balance shows a higher cash balance in the following months:

| <u>Month</u> | <u>Amount</u> |
|---------------|---------------|
| November 2011 | \$ 96,877 |
| January 2012 | \$ 61,907 |
| April 2012 | \$ 50,491 |
| May 2012 | \$ 64,900 |

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.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 12-05 (continued)

Criteria (continued)

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 disbursements procedures failed to assure that funds requested and received from grantor be disbursed in compliance with the Code of Federal Regulations Requirements. The above conditions are the result of inadequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.

Effect of Condition This situation could cause reimbursement of funds to the federal agencies by maintains excess cash on hand.

Recommendation The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by CDBG regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within five (5) business days.

Questioned Costs None

Management Response and Corrective Action The Program will coordinate with Municipal Finance Department to implement Corrective Action Plan. The plan will review and update policies and processes to reduce the time between the drawdown and payment of the funds. The cash management policies and operating procedures will be in writing and adopted as an internal control procedure in the Program. One of the key item of the procedure will be that no single individual will control a transaction from beginning to end. The manager of the accounting area of the Program will be responsible and accountable of the establishing of the procedure in combination with the Finance Director of the Municipality.

Still in Process

Implementation Date: June 30, 2013

Responsible Person: Mr. Ian Carlo Serna, Program Director, Mrs. Ramona Pacheco Finance Department Director and Mr. Osvaldo Maldonado, Accounting Unit Director (Local Level)

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 12-06

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

Requirement Reporting (L)

Statement of Condition 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:

| Line on Report | Amount per Report | Amount per Books | Difference |
|---|-------------------|------------------|----------------|
| Part II, Line 13 - Disbursed for 108 Repayments | \$ 2,002,726.07 | \$ 2,045,791.63 | \$ (43,065.56) |
| Part II, Line 15 - Total Expenditures | 6,286,870.74 | 6,285,329.97 | 1,540.77 |
| Part III, Line 31 – Total Public Service Obligation | 478,313.27 | 402,145.60 | 76,167.67 |
| Part III, Line 41 – Total Planning and Administration | 962,617.34 | 1,057,966.65 | (95,349.31) |

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.

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

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

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 12-06 (continued)

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

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

Questioned Costs None

**Management Response
and Corrective Action**

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.

Still in Process

Implementation Date: September 30, 2013

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

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|---|
| Finding Reference | 12-07 |
| Program | CDBG – Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218) & Community Development Block Grant ARRA Entitlement Grants (CDBG-R) – (Recovery Act Funded) (CFDA No. 14.253); U.S. Department of Housing and Urban Development |
| Requirement | Reporting (L) |
| Statement of Condition | During our test over the reports submitted to the grantor agency, we found that the Municipality did not submit the required information regarding the Federal Funding Accountability and Transparency Act (FFATA) corresponding to fiscal year 2010-2011 and 2011-2012. |
| Criteria | <p>Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to sub-award reporting (1) under grants and cooperative agreements were implemented as interim final guidance by OMB in 2 CFR 170, effective October 1, 2010 (75 FR 55663 et seq., September 14, 2010) and (2) under contracts, by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR) in an interim rule, effective July 8, 2010). The interim final guidance and the interim rule have the same effect as final guidance or a final rule and will remain in effect until superseded by final issuances. If the final issuances include any changes to the interim requirements, they will have new effective dates. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier sub-awards and contractors (i.e., prime contractors) that award first-tier subcontracts. There are limited exceptions as specified in 2 CFR part 170 the FAR. The guidance at 2 CFR part 170 currently applies only to federal financial assistance awards in the form of grants and cooperative agreements, e.g., it does not apply to loans made by a federal agency to a recipient; however, the sub-award reporting requirement applies to all types of first-tier sub-awards under a grant or cooperative agreement.</p> <p>As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards in awards subject to the Transparency Act.</p> <p>2 CFR, Subpart 170.330, establish requirements for recipients to report information about first-tier sub-awards and executive compensation. In this subpart is sated the applicability, where, when and what to report.</p> |
| Cause of Condition | There were no procedures established to assure that the Municipality complies with new reporting requirements applicable to the program. |

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 12-07 (continued)

Effect of Condition The Municipality is not in compliance with 2 CFR, Subpart 170.

Recommendation We recommend that the Municipality strengthen its procedures in order to assure that all reports required by the program be submitted to the federal agencies as stated in regulation.

Grant and cooperative agreement recipients and contractors are required to register in the Financial and report sub-award data through FSRS and report sub-award data through FSRS. To do so, Municipality will first be required to register in Central Contractor Registration.

OMB has issued several documents that provide guidance on the reporting requirements under the Transparency Act (located at <http://www.whitehouse.gov/omb/open>). Among them are Open Government Directive – Federal Spending Transparency and Open Government Directive – Federal Spending Transparency and Sub-award and Compensation Data Reporting.

Questioned Costs None

Management Response and Corrective Action

The Program will comply with FFATA reporting requirements for all first-tier subawards (subgrants and subcontracts) related to the CDBG program. A new procedure will be established delineating the thresholds, responsibilities of data collection and reporting. To correct the current situation, the Program will assign this project to one resource, who will be in charge of registering all the required information regarding the Federal Funding Accountability and Transparency Act (FFATA) not previously submitted.

Still in Process

Implementation Date: September 30, 2013

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

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|--|
| Finding Reference | 12-08 |
| Program | CDBG – Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218) & Community Development Block Grant ARRA Entitlement Grants (CDBG-R) – (Recovery Act Funded) (CFDA No. 14.253); U.S. Department of Housing and Urban Development |
| Requirement | Sub-Recipient Monitoring (M) |
| Statement of Condition | During our Sub-recipient Monitoring test, we found that the program did not comply with applicable requirements for fiscal monitoring to service provider’s financial and accounting records. |
| Criteria | <p>24 CFR Subpart C, Section 85.40 (a), <i>Monitoring grantees</i>. Grantees are responsible for managing the day-to-day operations of grant and sub-grant supported activities. Grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.</p> <p>Housing Authority Administrative Plan for the fiscal year 2011-2012, Monitoring procedures, establish that the current report is intended to describe the monitoring process of sub-recipient receiving CDBG funds through the Department of Housing of the Municipality of Ponce. It is composed of a sequence of stages developing a cycle:</p> <p><u>5th Stage: Evaluation of evidence submitted, & Follow Up other areas:</u> Monitoring Objective (7), To verify if subrecipient’s funds administration is in reasonable and satisfactory compliance with procedures, by-laws and applicable rules in accordance with the related activity, the Agreement and the following regulation: a) OMB Circular No.- A-122 “Cost Principles for Non-Profit Organization”, b) 24 CFR Part 45 or OMB Circular No.133 “Audits of States, Local Governments & Non-Profit Organizations”, c) 24 CFR Part 84 or OMB Circular No. A-110 “Uniform Administrative Requirements for Grants & Agreements with Institutions of Higher Education, Hospitals & other Non-Profit Organizations”</p> |
| Cause of Condition | The Program did not maintain an effective control over the sub-recipient monitoring procedures established by the state and federal regulations. |
| Effect of Condition | The lack of a complete sub-recipient monitoring process could weaken the corroboration of adequate use of the federal funds provided to the sub-recipient entities. |
| Recommendation | The program should establish adequate procedures to perform fiscal and programmatic sub-recipient monitories, including the adequate training of personnel assigned to monitoring functions. |

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-08 (continued)**

Questioned Costs None

**Management Response
and Corrective Action**

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.

Still in Process

Implementation Date: June 30, 2013

Responsible Person: Mr. Ian Carlo Serna, Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|---|
| Finding Reference | 12-09 |
| Program | CDBG – Entitlement Grants Cluster; Community Development Block Grant-Entitlement Program (CFDA No. 14.218) & Community Development Block Grant ARRA Entitlement Grants (CDBG-R) – (Recovery Act Funded) (CFDA No. 14.253); U.S. Department of Housing and Urban Development |
| Requirement | Davis Bacon Act (D) |
| Statement of Condition | <p>During our Davis-Bacon Act test, we evaluated the only contract of construction (<i>Parque Ecológico Urbano</i>) during fiscal year 2010-2011. The following will summarize the exceptions noted:</p> <ul style="list-style-type: none"> a) We noted that during the fiscal year 2011-2012, the Municipality did not apply monitoring procedure 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. |
| Criteria | Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7). |
| Cause of Condition | The Municipality’s controls and procedures failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages. |
| Effect of Condition | The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7). |
| Recommendation | <p>We recommend that the Municipality should establish defined procedure to monitor the enforcement of the Act’s regulation. Those procedure would including the following:</p> <ul style="list-style-type: none"> a) On site visits; b) Obtain all contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process. |
| Questioned Costs | None |

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-09 (continued)**

**Management Response
and Corrective Action**

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.

Still in Process

Implementation Date: June 30, 2013

Responsible Person: Mr. Ian Carlo Serna, Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 12-10

Program Home Investment Partnership Program (CFDA No. 14.239); U.S. Department of Housing and Urban Development

Requirement Accounting Records (L) (MW)

Statement of Condition 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.

| Balance Available by Grant | Balances Budget Reports | Balances on the Municipality's Accounting Records | Difference |
|----------------------------|-------------------------|---|-----------------|
| 2011 | \$ 1,154,877.08 | \$ (658,926.05) | \$ 1,813,803.13 |
| 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.

Criteria 24 CFR Subpart C, Section 85.20 (b) Accounting Records of 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, un-obligated balances, assets, liabilities, outlays or expenditures, and income.

Cause of Condition The Municipality did not establish adequate procedures for the reconciliation of HUD funds presented in IDIS with the resources accounted on the Program.

Effect of Condition Municipality'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 12-10 (continued)

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

Questioned Costs None

**Management Response
and Corrective Action**

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 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.

Partially Corrected

Implementation Date: December 31, 2013

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

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|---|
| Finding Reference | 12-11 |
| Program | Home Investment Partnership Program (CFDA No. 14.239); U.S. Department of Housing and Urban Development |
| Requirement | Davis Bacon Act (D) |
| Statement of Condition | <p>During our Davis-Bacon Act test, we evaluated the only contract of construction (<i>Construction of nine (9) housing units, "Sector Belgica"</i>) during fiscal year 2011-2012. The following will summarize the exceptions noted:</p> <ul style="list-style-type: none">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. |
| Criteria | Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7). |
| Cause of Condition | The Program's controls and procedures failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages. |
| Effect of Condition | The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7). |
| Recommendation | <p>We recommend that the Municipality should establish defined procedure to monitor the enforcement of the Act's regulation. Those procedure would including the following:</p> <ul style="list-style-type: none">a) On site visits;b) Obtain all contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process. |
| Questioned Costs | None |

Section III – Major Federal Award Program Findings and Questioned Costs

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

**Management Response
and Corrective Action**

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 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 covered projects. The procedure will be submitted to HUD for approval.

Still in Process

Implementation Date: June 30, 2013

Responsible Person: Mr. Ian Carlo Serna, Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

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|-------------------------------|---|
| Finding Reference | 12-12 |
| Program | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development |
| Requirement | Participant Eligibility Test (E) |
| Statement of Condition | <p>We have performed an eligibility test for sixty (60) participant's files and noted the following exceptions:</p> <ul style="list-style-type: none">a) In two (2) cases, the participants rent calculation was not determined correctly and in accordance with federal regulations. The participant's 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 of \$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 participant's 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.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.

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|--|---|
| Finding Reference | 12-12 (continued) |
| Criteria | <p>24 CFR Subpart B, Section 5.609 established that as a condition of admission or continued occupancy the tenant must provide all necessary information and documentation required and tenant's authorization to verify income eligibility. 24 CFR Subpart K Section 982.516 (a) established that PHA responsibility for reexamination of family income and composition at last annually, (2) the PHA must obtain and document in the tenant file third party verifications.</p> <p>24 CFR Subtitle A, Section 5.233 established - Mandated use of HUD's Enterprise Income Verification (EIV) System (a) (2) Processing entities must use HUD's EIV system in its entirety: (i) As a third party source to verify tenant employment and income information during mandatory reexaminations or recertifications of family composition and income, in accordance with 5.236, and administrative guidance issued by HUD; and (ii) To reduce administrative guidance. (b) <i>Penalties for noncompliance</i>. Failure to use the EIV system in its entirety may result in the imposition of sanctions and/or the assessment of disallowed costs associated with any resulting incorrect subsidy or tenant rent calculation, or both.</p> |
| Cause of Condition | The Program officers did not obtained and completed the required documentation to validate the participant's eligibility. In addition, the Municipality has no effective monitoring review process for the program internal quality control. |
| Effect of Condition | The Program does not meet all requirements in compliance with Code of Federal Regulations 24 and could have an effect in the performance on SEMAP Report. |
| Recommendation | The Program should strengthen its internal supervisory quality controls in order to ensure performance and compliance of the procedures. Also, management has to train the staff on file documentation and verification process. |
| Questioned Costs | None |
| Management Response and Corrective Action | <p>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 participant's 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.</p> <p>Regarding the individual conditions identified by the auditors we will present the applicable documentation to HUD's field office review.</p> |

Section III – Major Federal Award Program Findings and Questioned Costs

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

Partially Corrected

Implementation Date: June 30, 2013

Responsible Person: Mr. Ian Carlo Serna, Program Director and Mrs. Anette Saliva,
Housing Choice Voucher Coordinator

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 12-13

Program Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development

Requirement Financial Reporting (L) (MW)

Statement of Condition 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.

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

Housing Choice Voucher Program Guidebook, Chapter 20 Section 20.12, the purpose of the form HUD-52681 is provides the final calculation of annual contribution for the PHA. The final calculation of annual contribution required is made on this statement, including the determination of actual housing assistance payment, ongoing administrative fees, special fees, audit costs, and if applicable, preliminary fees.

The final provision (increase or decrease) to the ACC program reserve is also shown on this statement. During the fiscal year the PHA will have requisitioned payments from HUD based upon estimates of subsidy needed and administrative fees earned. The year-end settlement process on the HUD-52681 reconciles the amounts requisitioned based on estimated requirements with the actual housing assistance payment expenditures and fees earned. The reconciliation may result in either an overpayment due to HUD or an underpayment due to the PHA. Finally, the HUD-52681 presents the operating income, operating expenditures, and operating reserve of PHA for the reporting year.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 12-13 (continued)

Cause of Condition The Municipality did not establish effective procedures for the reconciliation of Financial Reporting HUD-52681, expenses and unit reported to federal agency versus the data record in the accounting record. Also, the Program deducts from the HAP funds that are recovered by the PHA through fraud recovery actions or by a participant's forfeiture of their FSS escrow account.

Effect of Condition The Municipality's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting. The Program does not meet all requirements in compliance with Code of Federal Regulations 24 and could have an effect in the performance on SEMAP Report.

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

Questioned Costs None

Management Response and Corrective Action 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.

Still in Process

Implementation Date: June 30, 2013

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

Section III – Major Federal Award Program Findings and Questioned Costs

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|-------------------------------|--|
| Finding Reference | 12-14 |
| Program | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development |
| Requirement | Financial Reporting – Accounting Records (L) (MW) |
| Statement of Condition | <p>During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.</p> <p>The Section 8 Housing Vouchers Program accounting records are not designed to provide information necessary for the preparation of the Financial Status, Supplemental Reports and Financial Assessment Subsystem (FDS) in accordance with compliance requirement program. The accounting system does not summarize the transactions in a formal chart of accounts in order to properly record and account for the transactions of all reports required by the Program.</p> |
| Criteria | <p>24 CFR Subpart C, Part 85.20 (b) (2) states that the grantees and sub grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.</p> <p>24 CFR Subpart D Section 982.158 (a), established that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be in the form required by HUD, including requirements governing computerized or electronic forms or record-keeping. The must comply with the financial reporting requirement in 24 CFR part 5, subpart K.</p> |
| Cause of Condition | 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 12-14 (continued)

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

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

Questioned Costs None

**Management Response
and Corrective Action**

Although the program management disagree with the finding, the Program will prepare and adopt a new financial procedure that will review the content of the existing financial records. The review will include the verification of compliance with the applicable regulation to determine if changes are necessary. Once the procedure is prepared, training will be provided to the local staff to assure its implementation.

Still in Process

Implementation Date: June 30, 2013

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

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|--|
| Finding Reference | 12-15 |
| Program | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development |
| Requirement | Reporting (L) (MW) |
| Statement of Condition | We performed a reporting test and we noted that the unaudited financial data (submitted electronically) was not submitted to HUD through the Real Estate Assessment Center (REAC) in the stipulated time. (August 31, 2012). This submission was made on September 26, 2012 but the same was <i>Rejected</i> 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 <i>Audited</i> financial information is not submitted yet. |
| Criteria | OMB No. 2535-017, 24 CFR section 5.801, requires PHA to submit timely GAAP-based unaudited and audited financial information electronically to HUD through the Real Estate Assessment Center (REAC). |
| Cause of Condition | The Program's accounting records did not comply with HUD requirements and were not adequate for the preparation of reports. |
| Effect of Condition | The Program's accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions. In addition, the Program's reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting. |
| Recommendation | We recommend that Management should strengthen its procedures to reconcile, in a timely manner, the federal funds reports with the accounting records in order to produce reliable financial data. The Program's management gave instructions to the program accountant to modify the accounting records in order to comply with the Program financial management and accounting requirements. |
| Questioned Costs | None |

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-15**

**Management Response
and Corrective Action**

A schedule of report submission will be adopted and the Accounting Director will be responsible of its implementation.

Still in Process

Implementation Date: June 30, 2013

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

Section III – Major Federal Award Program Findings and Questioned Costs

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|--|---|
| Finding Reference | 12-16 |
| Program | Head Start Cluster; Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services |
| Requirement | Payroll and Personnel Records – Rate Authorizations and Timekeeping |
| Statement of Condition | <p>During our test, we examined thirty (30) employee files, the assistance time cards and accrue vacation and sick cards; we found the following deviations:</p> <ul style="list-style-type: none"> a) In three (3) cases, the sick vacations days at 6/30/12 per compensated cards did not agree with 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. |
| Criteria | <p>GASB Statement No. 16 Accounting for Compensated Absences establishes standards for accounting and reporting for compensated absences for all state and local government unit.</p> <p>The Revised Regulations for Administration the Municipalities of Puerto Rico, Chapter IV, Section 20 (1) establish that the Municipality will prepare the payroll based on the employee’s files.</p> |
| Cause of Condition | The Municipality’s internal control procedures failed to assure the proper payment and preparation of payroll, and the accuracy of compensated absences balance ledger. |
| Effect of Condition | The Municipality is not in compliance with Chapter (IV), Section 20 (1) of Revised Regulations on Basic Standards for the Municipalities of Puerto Rico. |
| Recommendation | We recommend the Municipality to improve its internal control procedures to assure that documents contained in the employee’s file and other related documents support the payroll payments. |
| Questioned Cost | None |
| Management Response and Corrective Action | The Human Resources supervisor of the Program will establish a document verification system consisting to make sure that each employee file include the updated document agree with the gross amount payroll payment. |

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference

12-16 (continued)

Still in Process

Implementation Date: April 2013

Responsible Person: Mr. Javier O. Negrón, Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 12-17

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

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

Statement of Condition During our cash management test 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 assure 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.
- e) The bank reconciliations show average monthly cash balance of \$54,974 in the Head Start Bank Account. The cash balance shows a higher cash balance in the following months:

| Month | Amount |
|---------------|------------|
| January 2011 | \$ 181,247 |
| February 2011 | \$ 124,486 |
| March 2011 | \$ 206,396 |
| April 2011 | \$ 186,208 |

| Month | Amount |
|-----------|------------|
| May 2011 | \$ 171,084 |
| June 2011 | \$ 157,512 |

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

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-17 (continued)**

Criteria (continued)

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

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

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

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

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

Questioned Costs None

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-17 (continued)**

**Management Response
And Corrective Action**

The Program Director will change the person authorized to approve requisitions of funds in the HHS Payment Management System (Item a).

The program Fiscal Manager will improve the procedure of file of supporting document related to de 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 fund are making correctly (Item d).

The program director will evaluate the implementation of direct deposit method to the payments to all suppliers. This payment method will reduce the average monthly cash balance (Item e).

Still in Process

Implementation Date: July 2013

Responsible Person: Mr. Javier O. Negrón, Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

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|-------------------------------|--|
| Finding Reference | 12-18 |
| Program | Head Start Cluster; Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services |
| Requirement | Expenditures for Goods and Services and Accounts Payable-Purchasing and receiving (B) (MW) |
| Statement of Condition | <p>We performed a cash disbursement test and selected fifty (50) disbursement vouchers. The following will summarize the internal control exceptions noted:</p> <ul style="list-style-type: none">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 established the characteristics of the product needed.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. |
| Criteria | Code of Federal Regulation 45, Subpart C, Section 92.20 (b) (6) establishes that “accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.” |
| Cause of Condition | The Program internal control procedures failed to assure that all transactions were correctly registered and include all the required documentation. |

Section III – Major Federal Award Program Findings and Questioned Costs

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| Finding Reference | 12-18 (continued) |
| Effect of Condition | The Program is not in compliance with the Code of Federal Regulation. |
| Recommendation | We recommend the Program to improve its internal control and procedures in order to assure that all transactions are clerically accurate, and disbursement vouchers contain all the necessary supporting documents before making the payments. |
| Questioned Costs | None |
| Management Response and Corrective Action | <p>The Program Director will take appropriate corrective action to avoid the situation mentioned in the item (a) and item (b).</p> <p>Before acquires goods and services the program evaluated the necessity of such and determined that the merchandise that the selected supplier distributes, are the one that satisfies the necessity of the program. Exist different marks of a same product but the quality does not satisfy the program requirement (Item c).</p> <p>The program will make sure to extend the specifications in future purchases (Item d).</p> <p>The program will implement the use of a comparative table of the quotations received before select the supplier (Item e).</p> <p>Adequate corrective action was taken by the Program Director to assure that the internal document prepared by the program staff with the specific order to the supplier include the responsible officer authorization signature. Also, a copy of the internal documents is sent to Municipal Pre-Audit Office with the related invoice, to the corresponding evaluation and validation. The cases found in the audit are related to purchases realized before the implementation of this corrective action (Item f).</p> <p>Partially Corrected</p> <p>Implementation Date: April 2013</p> <p>Responsible Person: Mr. Javier O. Negrón, Program Director</p> |

Section III – Major Federal Award Program Findings and Questioned Costs

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|--|--|
| Finding Reference | 12-19 |
| Program | Head Start Cluster; Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services |
| Requirement | Matching, Level of Effort, Earmarking – Administrative Cost Limits (G) |
| Statement of Condition | The accounting system maintained by Head Start Program did not provide for the classification of financial transactions between administrative and programmatic costs. Alternate procedures were used by the Program staff to compute compliance with the fifteen percent (15%) administrative costs limit. |
| Criteria | 45 CFR, Subpart C, Section 92.20 (a) (2) states that the sub grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes. |
| Cause of Condition | The program accounting records did not provide a chart of accounts to individually account, programmatic and administrative expenditures. |
| Effect of Condition | The program is not in-compliance with 45 CFR, Subpart C. |
| Recommendation | We recommend management to modify the accounting system chart of accounts to create a separate account for administrative and programmatic expenditures. Also, cost with dual benefits (administrative and programmatic) should be identified and allocated appropriately using a cost-benefit proportion. |
| Questioned Costs | None |
| Management Response and Corrective Action | Effective on July 2012, the Program prepare purchase orders separated for administrative and programmatic expenditures and identified and allocated appropriately cost with dual benefits, using a cost-benefit proportion. |
| | Corrected |
| | Implementation Date: July 2012 |
| | Responsible Person: Mrs. Jessica Torruellas, Fiscal Manager |

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|---|
| Finding Reference | 12-20 |
| Program | Head Start Cluster; Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services |
| Requirement | Procurement and Suspension and Debarment (I) (MW) |
| Statement of Condition | <p>We have performed audit procedures to eight (8) contracts and noted the following exceptions:</p> <ul style="list-style-type: none">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. |
| Criteria | <p>45 CFR Parts 92, Subpart C, Section 92.36, (a), (b) (I), (b) (2), States. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Other grantees and subgrantees will follow paragraphs (b) through (i) in this section. Procurement standards, grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.</p> <p>45 CFR Part 92, Subpart C, Section 92.36 (1), Contract provisions. A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy. (I) Administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate.</p> |

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-20 (continued)**

Criteria (continued)

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

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

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

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

Questioned Cost None

Management Response and Corrective Action The 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).

Still in Process

Implementation Date: June 2013

Responsible Person: Mr. Javier O. Negrón. Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|--|---|
| Finding Reference | 12-21 |
| Program | Head Start Cluster; Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services |
| Requirement | Accounting Records (L) (MW) |
| Statement of Condition | During our audit, we noted that the 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. |
| Criteria | <p>45 CFR Part 92. Subpart C. Section 92.20 (a) (2), State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to: Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.</p> <p>45 CFR Part 92, Subpart C, Section 92.20, (b) (4), Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.</p> |
| Cause of Condition | The Program does not have an effective monitoring system to monitor the approved budget, obligations and expenditures. |
| Effect of Condition | The Program is not in compliance with the 45 CFR Part 92, Subpart C, Section 92.20. |
| Recommendation | Management should take necessary steps on the evaluation of the budget and actual expenditures. The Program must give financial training to the accountants in charge in the preparation of budget and financial report to ascertain that: (1) the accounting system comply with state and federal law, (2) the budget is prepared according to realistic needs and is expended as established. In addition, the Program should implement internal control procedures to assure that the use of Federal funds is restricted. |
| Questioned Cost | None |
| Management Response and Corrective Action | 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. |

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference

12-21 (continued)

Beginning on January 2012, the Program implemented the Mechanized Accounting System (MIP) and a comparative analysis between the information provided by the Municipal Accounting System (SIGMA) and the MIP.

Partially Corrected

Implementation Date: January 2012

Responsible Person: Mrs. Jessica Torruellas, Fiscal Manager

Section III – Major Federal Award Program Findings and Questioned Costs

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|-------------------------------|---|
| Finding Reference | 12-22 |
| Program | Head Start Cluster; Head Start Program (CFDA. No. 93.600), U.S. Department of Health and Human Services |
| Requirement | Reporting - Financial Administration (L) (MW) |
| Statement of Condition | In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report and the 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. |
| Criteria | The OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results. |
| Cause of Condition | Adequate internal controls do not exist to assure the correctness of closing reports submitted to the federal agencies. |
| Effect of Condition | The program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1). |
| Recommendation | We recommend the Program to establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. The Program fiscal area must establish adequate communication channels with the Finance Department in order to obtain documental evidence related to obligations issued, cash receipt and disbursements in a daily manner, in order to be posted in the accounting register maintained by the Program. The Program fiscal area must assure that accounting records are updated at the end of each month in order to prepare accurate reports to the federal agency. In addition, the accountant must assure that the cash register and the general ledger are duly reconciled and journal entries posted in the general ledger are duly documented and explained. We consider that the Program Director must evaluate the implementation of a computer accounting software to maintain the program books. Due to the large volume of transactions manual books are considered inefficient. In addition, we recommended an evaluation and technical assistance for the Program Fiscal Area to be performed by the Internal Audit Office of the Municipality to help in the implementation of these recommendations, to achieve the correction of the conditions identified in the audit. |
| Questioned Costs | None |

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-22 (continued)**

**Management Response
and Corrective Action**

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.

Partially Corrected

Implementation Date: January 2012

Responsible Person: Mrs. Jessica Torruellas, Fiscal Manager

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|---|
| Finding Reference | 12-23 |
| Program | HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services |
| Requirement | Cash Management (C) |
| Statement of Condition | <p>During our cash management test, we examined thirty four (34) requisitions of funds and after our procedures were performed, we found the following exceptions:</p> <ul style="list-style-type: none">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 \$76,681.82. |
| Criteria | <p>45 CFR Subpart C, Section 92.21 (b), (c), Basic Standard, Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or sub grantee, in accordance with Treasury regulations.</p> <p>45 CFR Subpart C, Section 92.20 (b) (7), Cash Management. Procedures for minimizing the time elapsing between the transfers of funds 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. When advances are made by letter-of-credit or electric transfer of funds methods, the grantee must make drawdown's as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their sub grantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.</p> |
| Cause of Condition | <p>The program did not follow the internal control procedures established for the disbursements. Also, the Program's internal control over cash is not effective since it is holding excessive cash balance in its bank accounts. The program requests cash advance for payroll, medicines and supplements, which represent the most material category costs, without estimating a reasonable elapsing time for disbursement.</p> |
| Effect of Condition | <p>Excessive cash balances kept by program to cover disbursements in against of the procedures recommended by the federal regulations.</p> |

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-23 (continued)**

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 federal 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 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 agency to determine the correct procedure to return back excessive fund deposited and not used (Item b).

Partially Corrected

Implementation Date: July 2013

Responsible: Mrs. Maria M. Rivera, Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|---|
| Finding Reference | 12-24 |
| Program | HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services |
| Requirement | Reporting (L) |
| Statement of Condition | 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. |
| Criteria | <p>Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to sub-award reporting (1) under grants and cooperative agreements were implemented as interim final guidance by OMB in 2 CFR 170, effective October 1, 2010 (75 FR 55663 et seq., September 14, 2010) and (2) under contracts, by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR) in an interim rule, effective July 8, 2010). The interim final guidance and the interim rule have the same effect as final guidance or a final rule and will remain in effect until superseded by final issuances. If the final issuances include any changes to the interim requirements, they will have new effective dates. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier sub-awards and contractors (i.e., prime contractors) that award first-tier subcontracts. There are limited exceptions as specified in 2 CFR part 170 the FAR. The guidance at 2 CFR part 170 currently applies only to federal financial assistance awards in the form of grants and cooperative agreements, e.g., it does not apply to loans made by a federal agency to a recipient; however, the sub-award reporting requirement applies to all types of first-tier sub-awards under a grant or cooperative agreement.</p> <p>As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards in awards subject to the Transparency Act.</p> <p>2 CFR, Subpart 170.330, establish requirements for recipients to report information about first-tier sub-awards and executive compensation. In this subpart is sated the applicability, where, when and what to report.</p> |
| Cause of Condition | There were no procedures established to assure that the Municipality complies with new reporting requirements applicable to the program. |
| Effect of Condition | The Municipality is not in compliance with 2 CFR, Subpart 170. |

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **12-24 (continued)**

Recommendation We recommend that the Municipality strengthen its procedures in order to assure that all reports required by the program be submitted to the federal agencies as stated in regulation.

Grant and cooperative agreement recipients and contractors are required to register in the Financial and report sub-award data through FSRS and report sub-award data through FSRS. To do so, Municipality will first be required to register in Central Contractor Registration.

OMB has issued several documents that provide guidance on the reporting requirements under the Transparency Act (located at <http://www.whitehouse.gov/omb/open>). Among them are Open Government Directive – Federal Spending Transparency and Open Government Directive – Federal Spending Transparency and Sub-award and Compensation Data Reporting.

Questioned Costs None

Management Response and Corrective Action 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.

Implementation Date: July 2013

Responsible: Mrs. Maria M. Rivera, 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, 2011 – June 30, 2012

Fiscal Year: 2011-2012

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

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

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

| Original Finding Number | Finding | Condition | Corrective Actions for finding not corrected or partially corrected | Questioned Cost | Status |
|-------------------------|--|--|---|-----------------|--|
| 2011-01 (FS) | Operating Deficit of General Fund (MW) | As of June 30, 2011, the Municipality closed with an accumulated unreserved (deficit) fund balance of \$33,674,005 in the general fund as presented in the balance sheet-governmental funds. Also, this is the third consecutive fiscal year that the Municipality closed current operations reporting a deficit. The deficit was caused by the overstatement of estimated revenues and/or the incurrence of obligations without credit available in the budgetary accounts. | The Municipality of Ponce will take adequate measurements to control the expenditures and to reduce the accumulated deficit. | None | Not resolved yet. See current finding number 2012-01. |
| 2011-02 (F/S) | Financial Reporting– Accounting Records (MW) | During our examination of the Municipality's accounting system, we noted that the computerized accounting system does not provide for adequate and effective financial information. As a consequence, the Finance and Budget Department personnel use, spreadsheet software for the preparation of the financial statements, resulting in a duplicate effort for the personnel and could create an involuntary miscalculation. | On March 23 2011, the Finance Director designated a special committee to evaluate the information system (SIGMA). The committee evaluated the mentioned deficiencies and submitted a written report containing recommendations to replace the information system. The special committee was integrated by the Accounting Supervisor, the Director of the Information and Technology Department and the Municipal Officials responsible to prepare the financial statements. | None | Not resolved yet. See current year finding number 2012-02. |

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2013

Date

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (continued)

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Fiscal Year: 2011-2012

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

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

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

| Original Finding Number | Finding | Condition | Corrective Actions for finding not corrected or partially corrected | Questioned Cost | Status |
|--|---|---|---|-----------------|--|
| 2011-03-(FS) | Municipal License Tax Revenues (MW) | Municipal license tax revenues of the fiscal year 2010-2011, which were collected in advance from taxpayers between January 1 and June 30, 2010 (known in Spanish as "Patente en Suspense"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2010. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2010-2011, and could not be used to pay obligations of the prior year. These transactions were not authorized by Municipal Legislature, by Ordinance or Resolution. | With the implementation of the corrective actions over the finding 2011-01 and the preparation of cash flow forecasts and projections to anticipate cash flow shortage, the Municipality expects to avoid in future years the use of the licenses tax revenue collection in advance to cover operating costs and cash flows shortages of the current fiscal year. | None | Not resolved yet. See current finding number 2012-04. |
| 2011-04 Procurement and Suspension and Debarment (I) (MW) | Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development | During our audit of procurement contract provisions test of two (2) contracts, we found one (1) contract, for the amount of \$2,673,217.20 of which \$700,000 were paid with CDBG Fund, without the following federal provisions: <ul style="list-style-type: none"> • Executive Order 11246 "Equal Employment Opportunity"; Davis Bacon Act; Sections 103 and 107 of the Contract Work Hours & Safety Standard Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations; Granting access to GAO or other federally agency, to books, documents, etc.; Clean Air Act and Water Act; Energy Policy and Conservation Act; Retention of all | The Program Director will require to the Legal Services Office to instruct this Lawyers about the contract provisions required by the federal regulation. | None | Full corrective action has been taken. This finding was not repeated in fiscal year 2011-2012. |

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2013

Date

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (continued)

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Fiscal Year: 2011-2012

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

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

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

| Original Finding Number | Finding | Condition | Corrective Actions for finding not corrected or partially corrected | Questioned Cost | Status | | | | | | | | | | | | | | | | | | | | | | | | |
|----------------------------|---|--|---|--|--|-------------|---------|-----------------|----------------|----------------|----------|------------|------------|-------------|---------|------------|------------|--------|---------|--------------|--------------|-------------|--|-----------------|-----------------|--------------|--|------|---|
| 2011-05 Reporting (I) (MW) | Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development | <p>required records for three years.</p> <p>During our reporting test for the CDBG – Entitlement Grants Cluster, we identified the following conditions:</p> <p>The cash disbursement per program's accounting records disagrees with cash disbursement reported in the SF-425 Federal Financial Report (cash status only) as follows:</p> <p><u>CDBG- Entitlement & CDBG-R</u></p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 15%;">Period ended on</th> <th style="width: 20%;">Cash disbursement per accounting records</th> <th style="width: 20%;">Cash disbursement per quarterly report</th> <th style="width: 45%;">Differences</th> </tr> </thead> <tbody> <tr> <td>9/30/10</td> <td style="text-align: right;">\$ 3,209,564.44</td> <td style="text-align: right;">\$3,165,677.46</td> <td style="text-align: right;">\$ (43,886.98)</td> </tr> <tr> <td>12/31/10</td> <td style="text-align: right;">559,791.42</td> <td style="text-align: right;">513,216.48</td> <td style="text-align: right;">(46,574.94)</td> </tr> <tr> <td>3/31/11</td> <td style="text-align: right;">987,368.09</td> <td style="text-align: right;">988,312.60</td> <td style="text-align: right;">944.51</td> </tr> <tr> <td>6/30/11</td> <td style="text-align: right;">1,342,559.11</td> <td style="text-align: right;">1,256,551.52</td> <td style="text-align: right;">(86,007.59)</td> </tr> <tr> <td></td> <td style="text-align: right;">\$ 6,099,283.06</td> <td style="text-align: right;">\$ 5,923,758.06</td> <td style="text-align: right;">\$ (175,525)</td> </tr> </tbody> </table> | Period ended on | Cash disbursement per accounting records | Cash disbursement per quarterly report | Differences | 9/30/10 | \$ 3,209,564.44 | \$3,165,677.46 | \$ (43,886.98) | 12/31/10 | 559,791.42 | 513,216.48 | (46,574.94) | 3/31/11 | 987,368.09 | 988,312.60 | 944.51 | 6/30/11 | 1,342,559.11 | 1,256,551.52 | (86,007.59) | | \$ 6,099,283.06 | \$ 5,923,758.06 | \$ (175,525) | The Program Director and the Municipal Finance Director will establish internal control procedures to assure the preparation of financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities. | None | Not resolved yet. See current finding number 2012-06. |
| Period ended on | Cash disbursement per accounting records | Cash disbursement per quarterly report | Differences | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9/30/10 | \$ 3,209,564.44 | \$3,165,677.46 | \$ (43,886.98) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12/31/10 | 559,791.42 | 513,216.48 | (46,574.94) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3/31/11 | 987,368.09 | 988,312.60 | 944.51 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6/30/11 | 1,342,559.11 | 1,256,551.52 | (86,007.59) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | \$ 6,099,283.06 | \$ 5,923,758.06 | \$ (175,525) | | | | | | | | | | | | | | | | | | | | | | | | | | |

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2013

Date

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (continued)

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

Audit Period: July 1, 2011 – June 30, 2012

Fiscal Year: 2011-2012

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

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

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

| Original Finding Number | Finding | Condition | Corrective Actions for finding not corrected or partially corrected | Questioned Cost | Status | | | | | | | | | | | | | | | | | | | | | | | | |
|----------------------------------|---|---|--|--|---|-------------|---------|---------------|---------------|---------------|----------|------------|------------|-------------|---------|------------|------------|------------|---------|------------|------------|--------------|--|-----------------|-----------------|--------------|--|------|---|
| 2011-06 Reporting (L) | Home Investment Partnership Program (CFDA NO. 14.239); U.S. Department of Housing and Urban Development | <p>During our reporting test for the HPRP – Recovery Act Funded, we identified the following conditions:</p> <p>The cash disbursement per program's accounting records disagrees with cash disbursement reported in ARRA - Federal Reporting 1512 as follows:</p> <p><u>HPRP</u></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Period ended on</th> <th style="text-align: center;">Cash disbursement per accounting records</th> <th style="text-align: center;">ARRA – Federal Reporting 1512</th> <th style="text-align: center;">Differences</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">9/30/10</td> <td style="text-align: right;">\$ 231,397.69</td> <td style="text-align: right;">\$ 395,058.00</td> <td style="text-align: right;">\$ 163,660.31</td> </tr> <tr> <td style="text-align: center;">12/31/10</td> <td style="text-align: right;">467,121.30</td> <td style="text-align: right;">380,284.36</td> <td style="text-align: right;">(86,836.94)</td> </tr> <tr> <td style="text-align: center;">3/31/11</td> <td style="text-align: right;">401,498.59</td> <td style="text-align: right;">571,966.50</td> <td style="text-align: right;">170,467.91</td> </tr> <tr> <td style="text-align: center;">6/30/11</td> <td style="text-align: right;">582,304.66</td> <td style="text-align: right;">384,483.42</td> <td style="text-align: right;">(197,821.24)</td> </tr> <tr> <td></td> <td style="text-align: right;">\$ 1,682,862.24</td> <td style="text-align: right;">\$ 1,731,792.28</td> <td style="text-align: right;">\$ 48,930.04</td> </tr> </tbody> </table> | Period ended on | Cash disbursement per accounting records | ARRA – Federal Reporting 1512 | Differences | 9/30/10 | \$ 231,397.69 | \$ 395,058.00 | \$ 163,660.31 | 12/31/10 | 467,121.30 | 380,284.36 | (86,836.94) | 3/31/11 | 401,498.59 | 571,966.50 | 170,467.91 | 6/30/11 | 582,304.66 | 384,483.42 | (197,821.24) | | \$ 1,682,862.24 | \$ 1,731,792.28 | \$ 48,930.04 | The Program Director and the Municipal Finance Director will establish internal control procedures to assure the preparation of financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities. | None | Not resolved yet. See current finding number 2012-10. |
| Period ended on | Cash disbursement per accounting records | ARRA – Federal Reporting 1512 | Differences | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9/30/10 | \$ 231,397.69 | \$ 395,058.00 | \$ 163,660.31 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12/31/10 | 467,121.30 | 380,284.36 | (86,836.94) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3/31/11 | 401,498.59 | 571,966.50 | 170,467.91 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6/30/11 | 582,304.66 | 384,483.42 | (197,821.24) | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | \$ 1,682,862.24 | \$ 1,731,792.28 | \$ 48,930.04 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2011-07 Cash Management (C) (MW) | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of | We realized Cash Management Test for Section 8 Housing Choice Voucher Program and after our procedures we found that the Program maintained during the current fiscal year | The Program management will take the necessaries measurements to avoid | None | Full corrective action has been taken. This finding was not | | | | | | | | | | | | | | | | | | | | | | | | |

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2013

Date

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (continued)

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

Audit Period: July 1, 2011 – June 30, 2012

Fiscal Year: 2011-2012

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

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

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

| Original Finding Number | Finding | Condition | Corrective Actions for finding not corrected or partially corrected | Questioned Cost | Status |
|---|---|--|--|-----------------|---|
| | Housing and Urban Development | average cash balance in books of approximately \$4,702,000. At June 30, 2010, the cash balance in books was \$4,784,759.87. This situation presents potential for excessive federal cash on hand. | accumulate additional excessive cash on hand and will take the adequate actions to use the excessive funds to cover necessities to improve the services to the participants and the employees work conditions, in compliance with the Program regulation. | | repeated in fiscal year 2011-2012. |
| 2011-08 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: <ul style="list-style-type: none"> a. In three (3) participant's files examined the PHA staff did not include evidence of the third party verifications. b. In four (4) cases, the eligibility determination made by and approved by responsible officials did not agree with the third party documentation. c. In six (6) cases, the tenant rent payment calculation was not determined in accordance with federal regulations. d. In two (2) cases, the forms to allow the PHA to obtain information from third parties were not signed for each member of the family who is at least eighteen years old. | The Program has strengthened internal supervisory quality controls, establishing a procedure of double evaluation of the participant files; by the supervisor and by the Quality Control Unit. Adequate forms and checklists have been implemented to document the evaluation. | None | Not resolved yet. See current finding number 2012-12. |

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|---------------------------------------|---|--|---|-----------------|---|
| 2011-09 Financial Reporting (L), (MW) | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development | <p>In our test over “Voucher for Payment of Annual Contribution and Operation Statement Report” versus accounting records, we noted that in the period covered from July 1, 2009 to June 30, 2010 the following items reported certain differences:</p> <ul style="list-style-type: none"> a. The “Portability In” HAP Voucher Expense, for all months. b. The “Fraud Recovery Amount Booked”, for all months. c. The Administrative Expense, for the months of July 09, August 09, December 09 and March 10 through June 10. d. The HAP Voucher Unit, for the all months. e. The “Portability-In “HAP Voucher Unit, for the months September 09, January 10, February 10 and March 10. | The Program Director and the Municipal Finance Director will establish internal control procedures to assure the preparation of financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities. Such internal controls procedures will include the timely reconciliation of federal funds reports with the accounting records. | None | Not resolved yet. See current finding number 2012-13. |

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| 2011-10 Financial Reporting – Accounting Records (L) (MW) | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development | <p>During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.</p> <p>The Section 8 Housing Vouchers Program accounting records are not designed to provide information necessary for the preparation of the Financial Status, Supplemental Reports and Financial Assessment Subsystem (FDS) in accordance with compliance requirement program. The accounting system does not summarize the transactions in a formal chart of accounts in order to properly record and account for the transactions of all reports required by the program.</p> | The Program Management have been implementing an accounting program (Micro-information Product Non For Profit System- MIP), which contains adequate procedures for the timely conciliation of federal fund report with accounting records and to produce reliable financial data. The Program obtained additional support in the MIP implementation through a professional services contract. | None | Not resolved yet. See current finding number 2012-14. |
| 2011-11 Activities Allowed and Unallowed | Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services | On our test over fifty-five (55) disbursement vouchers, we found the payment for an equipment with an acquisition cost of \$93,495 without the written approval of the Grant Officer. | Adequate corrective action will be taken by the program director to assure that prior to the acquisition of equipment with an acquisition cost of \$25,000 or more and useful life of more than, a written approval of the Grants Officer | \$93,495 | Full corrective action has been taken. This finding was not repeated in fiscal year 2011-2012. |

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| | | | be obtain. | | |
| 2011-12 Cash Management (C) (MW) | Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services | <p>We performed the Cash Management test over twenty-five (25) requisitions of funds and after our procedures we found the following exceptions:</p> <ul style="list-style-type: none"> a. One (1) of the requisitions of funds for \$20,607.35 was issued twice and the excess of cash was used fifty one (51) days after the funding date; b. The requisitions of funds were not approved the person authorized in the HHS Payment Management System whom was not an employee of the Municipality during 2010; c. In two (2) fund requisitions, we observed that the Municipality made the disbursements between five (5) and ten (10) days after the deposits; d. The bank reconciliations, shows average monthly cash balance of \$46,330 in the Head Start Bank Account and \$74,616 in the Head Start-ARRA and Early Head Start-ARRA account. e. The cash balance shows a higher cash balance in | The Program Director will change the person authorized to approve requisitions of funds in the HHS Payment Management System. The Head Start-ARRA and Early Head Start-ARRA account were closed, but the program director will continue establishing adequate internal controls policies to reduce the average monthly cash balance in the Head Start Bank Account. Also, internal controls will be strengthened in order to reduce the time elapsing between the deposit of funds and the disbursements. | None | Not resolved yet. See current year finding number 2012-17. |

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SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (continued)

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| | | the following months: | | | |
| 2011-13 Expenditures for Goods and Services and Accounts Payable – Purchasing and Receiving | Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services. | We performed a cash disbursement test and we select fifty five (55) disbursement vouchers. The following will summarize the internal control exceptions noted: a. The purchase orders included in eight (8) disbursement vouchers of Head Start Program do 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. | Adequate corrective action has been taken by the program director to assure that the internal document prepared by the program staff with the specific order to the supplier include the responsible officer authorization signature. Also, a copy of the internal documents is sent to Municipal Pre-Audit Office with the related invoice, to the corresponding evaluation | None | Not resolved yet. See current year finding number 2012-18. |

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SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (continued)

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| | | b. Nineteen (19) disbursement vouchers, amounting \$65,135, out of the period of availability of federal funds, were registered in the Head Start Fund as expenditures, but were paid from the Municipality's general fund bank account. New vouchers, even new obligations for the general fund, were not issued to register these payments as expenditures of the general fund. | and validation. | | |
| 2011-14 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. | The Program will prepare purchase orders separated for administrative and programmatic expenditures and will indentify and allocated appropriately cost with dual benefits, using a cost-benefit proportion. | None | Not resolved yet. See current year finding number 2012-19. |
| 2011-15 Period of Availability of Federal Funds (H) (MW) | Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services | Budget obligations are made in order to keep control of the funds available for expending. On our review over the transactions registered until June 30, 2011, we found disbursement vouchers accounted with budget obligations issued in 2009, for services received out of the period of availability of these funds, in some cases. Therefore, the | A budgetary liquidation will be prepared since December 2012 to determine the necessity to request to the Agency a waiver to extend the ninety days period to liquidate all future open | \$76,956.22 | Full corrective action has been taken. This finding was not repeated in fiscal year 2011-2012. |

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| | | <p>Municipality had to assume the payment for these disbursement vouchers.</p> <p>During our test of over fifty five (55) disbursement vouchers, we noted the following situations:</p> <ul style="list-style-type: none"> a. One (1) disbursement voucher, amounting \$11,202.05, with an obligation from 2009 was charged as 2011 expenditure. b. Eleven (11) disbursement vouchers, amounting \$65,754.17, with obligations from 2010 were charged as 2011 expenditures. <p>We did not obtain evidence of Agency waiver to extend the ninety days period to liquidate all open obligations from 2009 and 2010.</p> | obligations. | | |
| 2011-16 Procurement and Suspension and Debarment (I) (MW) | Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services | <p>We have performed audit procedures to eight (8) contracts and noted the following exceptions:</p> <ul style="list-style-type: none"> a. Seven (7) contracts do not include provisions for granting access to GAO or other federally agency, to books, documents, etc. | The corrective action related to this finding was taken when the prior year single audit was discussed with the program management. The cases mentioned in this finding are related to contracts signed | None | Not resolved yet. See current year finding number 2012-20. |

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| | | <ul style="list-style-type: none"> b. Seven (7) contracts do not include provision for retention of all required records for three years. c. One (1) contract does 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 does not include provision for termination by grantee by default. | before the corrective action implementation date. | | |
| 2011-17 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. | 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 | None | Not resolved yet. See current finding number 2012-21. |

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|---|---|---|---|-----------------|--|
| | | | restricted. | | |
| 2011-18 Reporting - Financial Administration (L) (MW) | Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services | In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report and the quarterly Cash Transaction Reports submitted to the federal agency and the amounts detailed in the general ledger, and bank reconciliations. As result, the financial reports do not agree with the program accounting records. | The Municipal Finance Director will assign to an employee the responsibility of support the Program in establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. Such employee will also support the program fiscal area in obtain documental evidence related to obligations issued, cash receipt and disbursements in a daily manner, in order to be posted in the accounting register maintained by the Program. | None | Not resolved yet. See current finding number 2012-22. |
| 2011-19 Cash Management (C) | HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department | During our cash management test, we noted the following situations: | The Program Director has taken the necessary actions to achieve the disbursement of | None | Not resolved yet. See current year finding number 2012-23. |

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| | of Health and Human Services | <ul style="list-style-type: none"> a. The internal control over cash is not effective since it holding excessive cash balance in its bank accounts. The program has not established procedures to minimize the time elapsing between the transfer funds and disbursements. b. The program makes two (2) requisitions to payroll of July and August 2010 and these were not reimbursed to General Fund during the fiscal year 2010-2011. c. The program does not confirm the "Payment Request" process before the release. Five (5) fund requisitions were made without the payment request was completed in all its parts. The authorized payments before having them available. d. The program maintains old balances that have not been used. e. The program maintained an average monthly cash balance of \$69,828 during the fiscal year 2010-2011. | <p>funds within the time constraints imposed by the federal requirement and avoid holding excessive cash balance in bank account. The Municipality has requested counseling to the federal agency to determine the correct procedure to return back excessive fund deposited and not used.</p> | | |

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| 2010-01 (FS) | Operating Deficit of General Fund (MW) | As of June 30, 2010, the Municipality closed with an accumulated unreserved (deficit) fund balance of \$34,845,366 in the general fund as presented in the balance sheet-governmental funds. Also, this is the third consecutive fiscal year that the Municipality closed current operations reporting a deficit. The deficit was caused by the overstatement of estimated revenues and/or the incurrence of obligations without credit available in the budgetary accounts. | <p>The Municipality of Ponce took the following measurements to control the expenditures and to reduce the accumulated deficit:</p> <ul style="list-style-type: none"> • On July 2010 a labor reduction policy was implemented consisting in reducing to all employees, one (1) labor lay per month and 5% of reduction in the salaries for Department Directors. A similar policy was implemented on July, 2009 but the reduction to all employees was of two (2) labor days per month. • Beginning on July 2009, the tax rate applicable to real and personal property was increased. • An aggressive debt collection plan was implemented by the Finance | None | Not resolved yet. See current finding number 2012-01. |

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| | | | <p>Director in order to obtain additional resources of income related to municipal licenses tax, property tax, and construction permits.</p> <ul style="list-style-type: none"> A provision for deficit reserve of \$100,000 was included in the municipal budget of the fiscal year 2010-2011. | | |
| 2010-02 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. | On March 23 2011, the Finance Director designated a special committee to evaluate the information system (SIGMA). The committee evaluated the mentioned deficiencies and submitted a written report containing recommendations to replace the information system. The special committee was integrated by the Accounting Supervisor, the Director of the Information and Technology | None | Not resolved yet. See current year finding number 2012-02. |

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AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (continued)

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

Audit Period: July 1, 2011 – June 30, 2012

Fiscal Year: 2011-2012

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

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

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

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| | | | <p>Department and the Municipal Officials responsible to prepare the financial statements.</p> <p>The Municipality will acquire a new version of the information system (SIGMA) during the next fiscal year.</p> | | |
| 2010-03-(FS) | Municipal License Tax Revenues (MW) | Municipal license tax revenues of the fiscal year 2010-2011, which were collected in advance from taxpayers between January 1 and June 30, 2010 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund incurred during the fiscal year ended June 30, 2010. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2010-2011, and could not be used to pay obligations of the prior year. These transactions were not authorized by Municipal Legislature, by Ordinance or Resolution. | With the adoption of the corrective actions mentioned in the findings 2009-01 and 2010-01, and the preparation of cash flow forecasts and projections to anticipate cash flow shortage, the Municipality expects to avoid in future years the use of the licenses tax revenue collection in advance to cover operating costs and cash flows shortages of the current fiscal year. | None | Not resolved yet. See current finding number 2012-04. |
| 2010-04 (FS) | Payroll and Related | During our test, we examined thirty-five (35) employee | The new personnel director | None | Full corrective action |

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| | Liabilities – Personnel, Employment, Rate and Authorizations and Timekeeping | <p>files, the assistance time cards and accrue vacation and sick cards; after procedures performed, we noted the following situations:</p> <p>a. In two (2) cases, the sick vacations days at 6/30/10 per Compensated Cards did not agree with the License Record prepared by client. The differences fluctuate between 4 to 18 days.</p> <p>b. In four (4) cases, the regular vacations days at 6/30/10 per Compensated Cards did not agree with the License Record prepared by client. The differences fluctuate between 2 to 4 days.</p> <p>c. In one (1) case, the Municipality did not decreased from the register the days the employee was absent.</p> <p>d. In six (6) cases, the gross amount payment per payroll did not agree with the gross amount payment included in the employee's file documentation.</p> <p>e. In ten (10) cases, the Compensated Absences Card was not available for our examination.</p> <p>f. The Municipal Police License Record at 6/30/10 was not available for our examination.</p> | <p>evaluated the established internal procedures related to the employee's files and payroll payments in order to improve such procedures and to assure that mentioned situations are not repeated. The Director, also, assigned to an employee the responsibility of evaluate the employee's files, at random, to verify the compliance with the required documents.</p> | | <p>has been taken. This finding was not repeated in fiscal years 2010-2011 and 2011-2012.</p> |

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| 2010-05 Financial Reporting (L) | Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development | SF-425, Federal Financial Report (cash status only) was not submitted for the fiscal year ended June 30, 2010. | The Program implemented adequate procedures to prepare and submit on time, all financial reports, including the report SF-425 - Federal Financial Report (cash status only). | None | Full corrective action has been taken. This finding was not repeated in fiscal years 2010-2011 and 2011-2012. |
| 2010-06 Procurement and Suspension and Debarment (I) (MW) | Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development | During our audit of procurement contract provisions test of two (2) contracts, we found one (1) contract, for the amount of \$2,905,000 of which \$905,000 were paid with CDBG Fund, without the following federal provisions a. Executive Order 11246 "Equal Employment Opportunity"; b. Davis Bacon Act; c. Sections 103 and 107 of the Contract Work Hours & Safety Standard Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations; d. Granting access to GAO or other federally agency, to books, documents, etc.; | The Program Director will require to the Legal Services Office to instruct this Lawyers about the contract provisions required by the federal regulation. | None | Full corrective action has been taken. This finding was not repeated in fiscal year 2011-2012. |

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| | | e. Clean Air Act and Water Act; f. Energy Policy and Conservation Act; g. Retention of all required records for three years. | | | |
| 2010-07 Allowable Cost/Cost Principles and Procurement and Suspension and Debarment (B), (I), (MW) | Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development | In our test of fifteen (15) disbursements voucher, we noted the following situation: From January 2010 to February 2010 were ordered and paid services to a contractor for improvements to a building where Section 8 Program has its facilities for \$63,201.23 without getting into a competition process. | The Program evaluated its internal controls over disbursement and procurement to avoid the repetition of the mentioned situation | \$63,201.23 | Full corrective action has been taken. This finding was not repeated in fiscal years 2010-2011 and 2011-2012. |
| 2010-08 Reporting (L) | Home Investment Partnership Program (CFDA NO. 14.239); U.S. Department of Housing and Urban Development | In our Reporting Test, we noted following: There is a difference of \$435,494 between the IDIS Report (CO4PR27) and the programs' accounting records. As of June 30, 2010, the amount disbursed per IDIS was \$11,361,024 versus \$11,796,519 per accounting records. The differences arise from grants from the 2000 through 2009 program years. | The Program implemented adequate procedures to prepare and submit on time, all financial reports, including the IDIS Report (CO4PR27). | None | Full corrective action has been taken. This finding was not repeated in fiscal year 2010-2011 and 2011-2012. |

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| 2010-09 Cash Management (C) (MW) | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development | We realized Cash Management Test for Section 8 Housing Choice Voucher Program and after our procedures we found that the Program maintained during the current fiscal year average cash balance in books of approximately \$4,342,400.05. At June 30, 2010, the cash balance in books was \$4,344,994.36. This situation presents potential for excessive federal cash on hand. | The Program management will take the necessary measurements to avoid accumulate additional excessive cash on hand and will take the adequate actions to use the excessive funds to cover necessities to improve the services to the participants and the employees work conditions, in compliance with the Program regulation. | None | Full corrective action has been taken. This finding was not repeated in fiscal year 2011-2012. |
| 2010-10 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 eight (8) participant's files examined the PHA staff did not include evidence of the third party verifications. b. In six (6) cases, the eligibility determination made by and approved by responsible officials did not agreed with the third party documentation. | The Program has strengthened internal supervisory quality controls, establishing a procedure of double evaluation of the participant files; by the supervisor and by the Quality Control Unit. Adequate forms and checklists have been implemented to document the evaluation. | None | Not resolved yet. See current finding number 2012-12. |

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| | | <p>c. In six (6) cases, the tenant rent payment calculation was not determined in accordance with federal regulations.</p> <p>d. In four (4) participant's files examined, the Inspection Form for fiscal year audited was not available for inspection.</p> <p>e. In one (1) case, the Inspection Form was incomplete.</p> <p>f. In nine (9) participant's files examined, the HAP Contract applicable for the fiscal year audited was not available for inspection.</p> <p>g. In two (2) participant's files, the Form HUD-50058, Family Report (OMB No. 2577-0083), applicable for the fiscal year audited was not available for inspection.</p> <p>h. In nineteen (19) cases, the PHA did not complete the Owner's Disclosure to the tenant of the presence of any known lead-based paint and/or</p> | | | |

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| | | lead based paint hazards. | | | |
| 2010-11 Allowable Cost/Cost Principles and Procurement and Suspension and Debarment (B), (I), (MW) | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development | In our test of twenty (20) administrative disbursements, we noted the following situation: From January 2010 to February 2010 were ordered and paid services to a contractor for improvements to a building where Section 8 Program has its facilities for \$17,751.23 without getting into a competition process. | The Program evaluated its internal controls over disbursement and procurement to avoid the repetition of the mentioned situation. | \$17,751.23 | Full corrective action has been taken. This finding was not repeated in fiscal years 2010-2011 and 2011-2012. |
| 2010-12 Financial Reporting (L), (MW) | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development | In our test over "Voucher for Payment of Annual Contribution and Operation Statement Report" versus accounting records, we noted that in the period covered from July 1, 2009 to June 30, 2010 the following items reported certain differences: a. The "Portability In" HAP Voucher Expense, for all months. b. The "Fraud Recovery Amount Booked", for all | The Municipal Finance Director will establish internal control procedures to assure the preparation of financial reporting with accurate, current, and complete disclosure of the financial results of financially assisted activities. Such internal controls procedures will include the | None | Not resolved yet. See current finding number 2012-13. |

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| | | <p>months.</p> <p>c. The Administrative Expense, for the months of July 09, August 09, December 09 and March 10 through June 10.</p> <p>d. The HAP Voucher Unit, for the all months.</p> <p>e. The "Portability-In "HAP Voucher Unit, for the months September 09, January 10, February 10 and March 10.</p> | <p>timely reconciliation of federal funds reports with the accounting records.</p> <p>The Program supervisor revised the tasks assigned to the accounting department personnel in order to achieve adequate distribution of tasks and assure the proper preparation of the reports.</p> | | |
| 2010-13 Special Test (N) | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development | We noted that the Section 8 Housing Choice Vouchers Program did not comply with the compliance requirement of Depository Agreements. The PHA is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999) | The Finance Director of the Municipality entered into depository agreement with the financial institution using the form required by HUD. (Form HUD-51999) | None | Full corrective action has been taken. This finding was not repeated in fiscal years 2010-2011 and 2011-2012. |
| 2010-14 Special Test (L) (MW) | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development | We performed a Reporting Test and we noted the unaudited financial data (submitted electronically) was not submitted to HUD through the Real Estate Assessment Center (REAC) in the stipulated time. (August 31, 2010). | The Program's accountant submitted the GAAP-based unaudited and audited financial information electronically to HUD. | None | Full corrective action has been taken. This finding was not repeated in fiscal years 2010-2011 and 2011- |

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| | | | Corrective action measurements were taken to avoid that this situation be repeated. | | 2012. |
| 2010-15 Financial Reporting – Accounting Records (L) (MW) | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development | <p>During our audit, we noted that the Municipality and the Program staff of Section 8 Housing Choice Vouchers did not maintain an adequate set of accounting records for Section 8 Housing Choice Vouchers that present the financial position of the program and results of its operations.</p> <p>The Section 8 Housing Vouchers Program accounting records are not designed to provide information necessary for the preparation of the Financial Status, Supplemental Reports and Financial Assessment Subsystem (FDS) in accordance with compliance requirement program. The accounting system does not summarize the transactions in a formal chart of accounts in order to properly record and account for the transactions of all reports required by the program.</p> | The Program Management have been implementing an accounting program (Micro-information Product Non For Profit System- MIP), which contains adequate procedures for the timely conciliation of federal fund report with accounting records and to produce reliable financial data. The Program obtained additional support in the MIP implementation through a professional services contract. | None | Not resolved yet. See current finding number 2012-14. |
| 2010-16 Workforce Investment Act | Earmarking – Low-Income Youth – 95% (G) | The program did not maintain a list of eligible participants in Youth Activities that must meet the criteria of disadvantaged | The Program established the required list of eligible | None | Full corrective action has been taken. This |

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| (CFDA. No. 17.258-260); U.S. Department of Labor; Pass-through the Human Resources Occupational & Development Council (HRODC) | | low-income youth. | participants in Youth Activities and identified the participant's files according to the eligibility criteria. | | finding was not repeated in fiscal years 2010-2011 and 2011-2012. |
| 2010-17 Cash Management (C) (MW) | Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services | <p>We performed the Cash Management test over twenty-two (22) requisitions of funds and after our procedures we found the following exceptions:</p> <ol style="list-style-type: none"> a. The amount of request for funds and supporting documents does not agree. Funding request for \$10,000.64 was not reconciled and corrected in the next request. b. Four (4) requisitions of funds did not include the signature of the Program Officer who verified and approved the request. c. One (1) requisition of funds was not approved by the person authorized in the HHS Payment | The Program Director will change the person authorized to approve requisitions of funds in the HHS Payment Management System. The Head Start-ARRA and Early Head Start-ARRA account were closed, but the program director will continue establishing adequate internal controls policies to reduce the average monthly cash balance in the Head Start Bank Account. Also, internal controls will be strengthened in order to | None | Not resolved yet. See current year finding number 2012-17. |

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| | | <p>Management System.</p> <p>d. We could not trace the requisitions to the disbursements in three (3) cases.</p> <p>e. The bank reconciliations, shows average monthly cash balance of \$46,963. The cash balance shows a higher cash balance in the following months:</p> <p>1. December 2009 \$ 329,028 2. November 2009 \$ 82,028</p> | reduce the time elapsing between the deposit of funds and the disbursements. | | |
| 2010-18 Expenditures for Goods and Services and Accounts Payable | Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services. | <p>We performed a cash disbursement test and we select forty-nine (49) disbursement vouchers which belonged to Head Start Program. The following will summarize the internal control exceptions noted:</p> <p>a. The purchase orders included in seventeen (17) disbursement vouchers of Head Start Program do not include the description of the services or goods ordered. In addition, an internal document is prepared by the program staff; with the specific order to the supplier; the same did not include the responsible officer signature.</p> | Adequate corrective action has been taken by the program director to assure that the internal document prepared by the program staff with the specific order to the supplier include the responsible officer authorization signature. Also, a copy of the internal documents is sent to Municipal Pre-Audit Office with the related invoice, to the corresponding evaluation | None | Not resolved yet. See current year finding number 2012-18. |

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| | | <p>b. In one (1) disbursement voucher of Head Start Program the receiving report was not available for our examination;</p> <p>c. One (1) disbursement voucher of Head Start Program was not signed by the official payer;</p> <p>d. In two (2) disbursement voucher of Head Start Program, the goods or services were received after the contract and purchase order's deadline;</p> <p>e. Ten (10) disbursement vouchers out of the period of availability of federal funds, were registered in the Head Start Fund as expenditures, but were paid from the Municipality's general fund bank account. New vouchers, even new obligations for the general fund, were not issued to register these payments as expenditures of the general fund. This situation includes twenty-eight disbursements that amounted to \$140,947.45.</p> | <p>and validation.</p> <p>The Program Director and the Municipal Finance Director will take the necessary measurements to avoid that disbursement vouchers paid from Municipality's general fund being registered in the Head Start Fund as expenditures.</p> | | |
| 2010-19 Participants' Eligibility (E) | Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services | <p>We have performed an Eligibility test to forty (40) participants' files and noted the following exceptions:</p> <p>1. For seven (7) cases the program staff did not request the family all the necessary information and documentation to properly evaluate the eligibility of the candidates.</p> | The Program took the appropriate actions to correct the conditions indicated in this finding. | None | Full corrective action has been taken. This finding was not repeated in fiscal years 2010-2011 and 2011-2012. |

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| | | 2. In one (1) case the information and documentation of the family was not properly evaluated by the program staff, who failed to classify the candidates as above the poverty income guidelines. | | | |
| 2010-20 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. | The Program will prepare purchase orders separated for administrative and programmatic expenditures and will identify and allocated appropriately cost with dual benefits, using a cost-benefit proportion. | None | Not resolved yet. See current year finding number 2012-19. |
| 2010-21 Period of Availability of Federal Funds (H) (MW) | Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services | Budget obligations are made in order to keep control of the funds available for expending. On our review over the transactions registered until June 30, 2010, we found disbursement vouchers accounted with budget obligations issued in 2007, 2008, and 2009, for services received out of the period of availability of these funds, in some cases. Therefore, the Municipality had to assume the payment for these disbursement vouchers. | A budgetary liquidation will be prepared since December 2012 to determine the necessity to request to the Agency a waiver to extend the ninety days period to liquidate all future open obligations. Also, internal controls will be | \$68,086.53 | Full corrective action has been taken. This finding was not repeated in fiscal year 2011-2012. |

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| | | During our test of over forty-nine (49) disbursement vouchers, we noted that three (3) invoices amounting \$68,086.53 were paid out of the 90 days after the close of the grant award. We did not obtain evidence of Agency waiver to extended deadline. | strengthened in order to assure that open obligations being cleared at liquidation date and to avoid compromise the budget assigned for the next program year. | | |
| 2010-22 Procurement and Suspension and Debarment (I) (MW) | Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services | <p>We have performed audit procedures to ten (10) contracts and noted the following exceptions:</p> <ul style="list-style-type: none"> a. Three (3) contracts do not include provision for compliance with sections 103 and 107 of the Contract Work Hours & Safety Standards Act. b. Five (5) contracts do not include provisions for granting access to GAO or other federally agency, to books, documents, etc. c. Three (3) contracts do not include provision for compliance with Energy Policy, and Conservation Act. d. Three contracts (3) do not include provision for compliance with the Copeland "Anti-kickback". | <p>The corrective action related to this finding was taken when the prior year single audit was discussed with the program management. The cases mentioned in this finding are related to contracts signed before the corrective action implementation date.</p> <p>The Program Director will require to the Legal Services Office to instruct this Lawyers about the contract provisions required by the 45 CFR Part 92, Subpart C, Section 92.36 (1).</p> | None | Not resolved yet. See current year finding number 2012-20. |

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT


Hon. María E. Meléndez Altieri, Mayor

March 31, 2013

Date

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (continued)

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

Audit Period: July 1, 2011 – June 30, 2012

Fiscal Year: 2011-2012

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

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

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

| Original Finding Number | Finding | Condition | Corrective Actions for finding not corrected or partially corrected | Questioned Cost | Status |
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| | | <ul style="list-style-type: none"> e. Five (5) contracts do not include provision for retention of all required records for three years. f. Three (3) contracts do not include provision for compliance with Executive Order 11246 "Equal Employment Opportunity" g. Three (3) contracts do not include provision for compliance with Davis Bacon Act h. Two (2) contracts do not include provision for compliance with the Clean Air Act and Water Act | | | |
| 2010-23 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. | 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 | None | Not resolved yet. See current finding number 2012-21. |

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| | | | control procedures to assure that the use of Federal funds is restricted. | | |
| 2010-24 Reporting - Financial Administration (L) (MW) | Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services | In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Financial Status Report and the quarterly Cash Transaction Reports submitted to the federal agency and the amounts detailed in the general ledger, and bank reconciliations. As result, the financial reports do not agree with the program accounting records. | The Municipal Finance Director will assign to an employee the responsibility of support the Program in establish monitoring procedures to assure the accuracy of accounting records and a correct completion of the closing reports. Such employee will also support the program fiscal area in obtain documental evidence related to obligations issued, cash receipt and disbursements in a daily manner, in order to be posted in the accounting register maintained by the Program. With the support of the Municipal Finance Department, the Program fiscal area will assures that accounting | None | Not resolved yet. See current finding number 2012-22. |

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| | | | records are updated at the end of each month in order to prepare accurate reports to the federal agency. The cash register and the general ledger will be duly reconciled and journal entries posted in the general ledger will be duly documented and explained. | | |
| 2010-25 Cash Management (C) | HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services | <p>During our cash management test, we noted the following situations:</p> <ul style="list-style-type: none"> a. Five (5) disbursements were made without the Payment Request completed in all of its parts. The Program authorized the payments before cash availability creating an overdraft in the bank account. b. The program maintains prior years' balances that have not been used. c. The program maintained an average monthly cash balance of \$51,893.25 during the fiscal year 2009-2010. | <p>The Program Director has taken the necessary actions to achieve the disbursement of funds within the time constraints imposed by the federal requirement and avoid holding excessive cash balance in bank account.</p> <p>The Municipality has requested counseling to the federal agency to determine the correct procedure to return back excessive fund deposited and not used.</p> | None | Not resolved yet. See current year finding number 2012-23. |

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|---|---|---|---|-----------------|--------|-------------|-------|--------|---------|--------|----------|-------|-------|--------|-------|-------|-------|------|------------|---------|------|-------------|-------|--------|---------|--------|----------|-------|-------|--------|-------|-------|-------|-----|---|------|---|
| 2010-26 - HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services | Matching, Level of Effort, Earmarking (G) | <p>During our special test (WICY Expenditures), we found that the program did not comply with the ratio of the population that involved (women, youth, infants and children). Also, in the "WICY Expenditure Narrative", the management used the incorrect Part A% for children population and only reported the women expenditures instead of the total WICY population.</p> <p style="text-align: center;">FY 09 PART A USED FOR SERVICES-WICY EXPENDITURE NARRATIVE (before audit)</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%;">Population</th> <th style="width: 15%;">Part A%</th> <th style="width: 15%;">CDC%</th> <th style="width: 45%;">Differences</th> </tr> </thead> <tbody> <tr> <td>Women</td> <td>27.50%</td> <td>29.80 %</td> <td>(2.38)</td> </tr> <tr> <td>Children</td> <td>0.06%</td> <td>0.55%</td> <td>(0.49)</td> </tr> <tr> <td>Youth</td> <td>4.00%</td> <td>3.85%</td> <td>0.15</td> </tr> </tbody> </table> <p style="text-align: center;">FY 09 PART A USED FOR SERVICES-WICY EXPENDITURE NARRATIVE (after audit)</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%;">Population</th> <th style="width: 15%;">Part A%</th> <th style="width: 15%;">CDC%</th> <th style="width: 45%;">Differences</th> </tr> </thead> <tbody> <tr> <td>Women</td> <td>27.69%</td> <td>29.80 %</td> <td>(2.19)</td> </tr> <tr> <td>Children</td> <td>0.05%</td> <td>0.55%</td> <td>(0.50)</td> </tr> <tr> <td>Youth</td> <td>4.15%</td> <td>3.85%</td> <td>.30</td> </tr> </tbody> </table> <p>Also, our test of cost per patient served revealed differences</p> | Population | Part A% | CDC% | Differences | Women | 27.50% | 29.80 % | (2.38) | Children | 0.06% | 0.55% | (0.49) | Youth | 4.00% | 3.85% | 0.15 | Population | Part A% | CDC% | Differences | Women | 27.69% | 29.80 % | (2.19) | Children | 0.05% | 0.55% | (0.50) | Youth | 4.15% | 3.85% | .30 | The Program took the appropriate actions to correct the conditions indicated in this finding. | None | Full corrective action has been taken. This finding was not repeated in fiscal years 2010-2011 and 2011-2012. |
| Population | Part A% | CDC% | Differences | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Women | 27.50% | 29.80 % | (2.38) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Children | 0.06% | 0.55% | (0.49) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| Population | Part A% | CDC% | Differences | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Women | 27.69% | 29.80 % | (2.19) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Children | 0.05% | 0.55% | (0.50) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Youth | 4.15% | 3.85% | .30 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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March 31, 2013

Date

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF PONCE

SCHEDULE OF STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS (continued)

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| | | between expenditures reported in the WICY expenditures worksheet and accounting records. As a result, the percentage reported was not correct. | | | |
| 2010-27 Period of Availability of Federal Funds (H) (MW) | HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services | The program does not prepare a detailed list of outstanding obligations to be settled within the period of 90 days after the end of the budget period. | The Program took the appropriate actions to correct the conditions indicated in this finding. | None | Full corrective action has been taken. This finding was not repeated in fiscal years 2010-2011 and 2011-2012. |
| 2010-28 Reporting Financial Administration (L) | HIV Emergency Relief Project Grants (CFDA 93.914); U.S. Department of Health and Human Services | During our audit, we noted that the Program did not maintain an adequate set of accounting records that present the financial position of the program and results of its operations. In our Reporting Test, we found differences between the amounts reported as federal expenditures and the WICY Expenditure Worksheet and Narrative Report. As result, the financial reports do not agree with the program accounting records. | The Program took the appropriate actions to correct the conditions indicated in this finding. | None | Full corrective action has been taken. This finding was not repeated in fiscal years 2010-2011 and 2011-2012. |

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