

**Municipality of Ponce**  
**Comprehensive Annual Financial Report**  
**June 30, 2002**

**Prepared by Municipality of Ponce**

**Hon. Rafael Cordero Santiago**  
**Mayor**

**Carlos Jirau**  
**City Manager**

**Myrna Ortiz**  
**Finance Director**

**October 25, 2002**

**MUNICIPALITY OF PONCE**  
**Comprehensive Annual Financial Report**

June 30, 2002

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# MUNICIPALITY OF PONCE

## Comprehensive Annual Financial Report

June 30, 2002

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## **Part I. Introductory Section**

October 25, 2002

To the Honorable Mayor and Member of the Municipality  
Assembly and the Residents of the Municipality of Ponce:

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with general accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Municipality of Ponce for the fiscal year ended June 30, 2002.

This report consists of management's representations concerning the finances of the Municipality of Ponce. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this reports. To provide a responsible basis for making these representations, management of the Municipality of Ponce has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of the Municipality of Ponce financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Municipality of Ponce comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert to the best of our knowledge and beliefs, this financial report is complete and reliable in all material respects.

The Municipality of Ponce financial statements have been audited by Ortiz, Rodríguez Rivera & Co. a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Municipality of Ponce for the fiscal year ended June 30, 2002, are free of material misstatement. The independent audit involved examining, on a test basis, evidence

(Continued)

supporting the amounts and disclosure in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statements presentations. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Municipality of Ponce financial statements for the fiscal year ended June 30, 2002 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

The standards governing Single Audit engagement require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal control and legal requirements involving the administration of federal awards. These reports are available in the Municipality of Ponce separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Municipality of Ponce's MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

The Municipality of Ponce, incorporated in 1692, is located in the south part of Puerto Rico, one of the top growth areas of the island. The Municipality of Ponce currently occupies a land area of 184.47 square miles and serves a population of 187,935. The Municipality of Ponce is empowered to levy a property tax on both real and personal properties located within its boundaries.

The Municipality of Ponce has operating under the Commonwealth since 1952. Policy-making and legislative authority are vested in a Legislative Assembly consisting of the mayor and sixteen legislative assembly members. The Legislative Assembly is responsible, among other things, for passing ordinances, and approving the budget and any budget transfer is necessary. The City manager is responsible for carrying out the policies and ordinances of the Legislative Assembly, for overseeing the day-to-day operations of the government. Legislative Assembly members serve for four-years.

The Municipality of Ponce provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure; and recreational activities and cultural events. The Municipality of Ponce also is financially accountable for a legally separate Port and a legally Corporation for Housing and Commercial Development (CODEPCOVI), both of which are reported separately within the Municipality of Ponce statements. Additional information on all three of these legally separate entities can be found in Note 2 to the financial statements.

(Continued)

The Annual budget serves as the foundation for the Municipality of Ponce's financial planning and a control. All departments of the Municipality of Ponce are required to submit request for appropriation to the Budget Director on or before of April 30 each year. The Budget Director uses these requests as the starting point for developing a proposed budget. The Budget Director, then present this proposed budget to the Mayor for review prior to May 15. The Mayor is required by the Law 81 to present this budget to the Legislative Assembly no later than May 31. The Legislative Assembly is required to hold public hearings on the proposed budget and adopt a final budget no later than June 13 each year. The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments, however, require the special approval of the Legislative Assembly. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

### **Factors Affecting Financial Condition**

The information presented in the financial statement is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Municipality of Ponce operates.

**Local economy.** The Municipality of Ponce currently enjoys a favorable economic environment and local indicators point to continued stability. The region has a varied manufacturing and industrial base that adds to the relative stability of the unemployment's rate.

The Municipality of Ponce has an employed labor force of approximately 56,335, which is anticipated to grow at a rate of between 3 percent and 4 percent each year for the next several years. This expectation is base on the development of the Las Americas Port, during the year 2001-2002 the gross revenues of the Port of Ponce was \$2.3 millions. During the year ended June 30, 2002 the Port of Ponce manage 55,903 containers and 850,030 tons. The export and imports increase a 9 % during this year. The board of Director of the Ponce Port has been working on the engineering studies and has obtained the constructions plans for the improvement of piers 4, 5, 6, and 7A. The Port received 245 ships with 2.9 tons, an increase of 4% vs. prior year. The expectation in the development of the Port of Ponce is to increase the Port operations 10 times, and that increase will benefit the economic of the Municipality of Ponce as a whole.

The government's central business district is expended to maintain its current 97 percent occupancy rate with a variety of store, specially shop, and commercial businesses. Meanwhile, there continues to be a discernable trend toward steady residential growth.

(Continued)

**Long-term financial planning.** The Municipality of Ponce plan to develop the following projects during the year ended June 30, 2003:

1. Sewer System of Las Americas Avenue	\$ 5,000,000
2. Construction of Public library and Historic Deposit	4,500,000
3. Improvements to Concha Acústica	1,000,000
4. Improvements to Monagas Park	2,500,000
5. Morell Campos Institute	2,500,000
6. Improvements City Hall	8,800,000
7. Bellas Artes Center	20,000,000
8. Improvements to various streets and sectors	<u>11,892,406</u>
 Total	 <u>\$56,192,406</u>

The administration of the Municipality has design other projects for the next 3 years and has already obtained the commitments from Commonwealth that funding will be available from the general budget. Some of those projects are as follow:

1. Improvements to Santiago de los Caballeros Avenue	\$15,000,000
2. Construction of PR 9 road to PR 123 road	11,179,411
3. Construction of PR to Urb. Jardines del Caribe	17,363,077
4. Improvements to High way PR 2	7,500,000
5. Improvements to Hostos street to Las Americas Ave.	2,000,000
6. Improvements to 14 road	6,000,000
7. Improvements to PR 503 to Mayor Cantera Street	5,000,000
8. Improvements to PR 139 road	5,350,000
9. Improvement to Port of Ponce	400,000,000
10. Channel of Bucaná-Portugués river	103,000,000
11. Others minors constructions	28,500,000
12. Rafael Lopez Nusa -	20,000,000
13. Residencial Caribe -	11,500,000
14. Lirios del Sur -	<u>18,000,000</u>
 Totals	 <u>\$650,392,488</u>

(Continued)

Other projects will be finance by loans with the Economic Development Bank and the expectations are to be completed by June 30, 2005.

Those projects are as follow:

1. Improvements Pachin Vicens Park	\$8,100,000
2. Francisco Montaner field	5,800,000
3. Improvements to Recreational Park	2,500,000
4. Dredge in the Port	30,000,000
5. Purchase of equipments and improvements to pier 7 & 8	50,000,000
6. Various Basketball field	5,000,000
7. Extension to Lineal Park	<u>5,000,000</u>
Total	<u>\$ 108,900,000</u>

**Cash management polices and practices.** Cash temporarily idle during the year was invested in certificates of deposit. The maturities of the investment range from 30 to 60 days. The average yield on investments was 2 to 2.5 percent. Investment income for the year ended June 30, 2002 was \$1,899,811.

**Risk Management.** The Administration of the Municipality of Ponce performed an evaluation of the valuation of all Municipal property looking for obtain an insurance for damage which cover a real amount of value of the properties. All acquisitions or sales of properties are supervised by the Director each of the department, the Municipality performed annual inventory of all personal and real property.

Additional information on the Municipality of Ponce risk management activity can be found in Note j of the notes to the financial statements.

#### **Awards and Acknowledgements**

The Comptroller of Puerto Rico awarded a Certificated of Compliance with the Standard for the improvements of the Municipal Administrations to the Municipality of Ponce. This was the second consecutive year that the Municipality of Ponce has received this prestigious award.

In addition, the Municipality of Ponce received an award from Commonwealth of Puerto Rico for the performance of the standard with the Work Investment Act program.

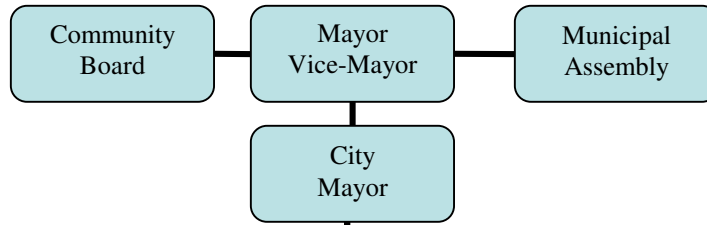
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The presentation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. We would like to express our appreciation to all member of the department who assisted and contributed to the preparation of this report and also we would like to give special thanks to our independent auditors Ortiz, Rodríguez Rivera & Co. for their commitment. Credit also must be given to the Mayor for the professionalism in the management of the Municipality of Ponce finance.

Respectfully submitted,

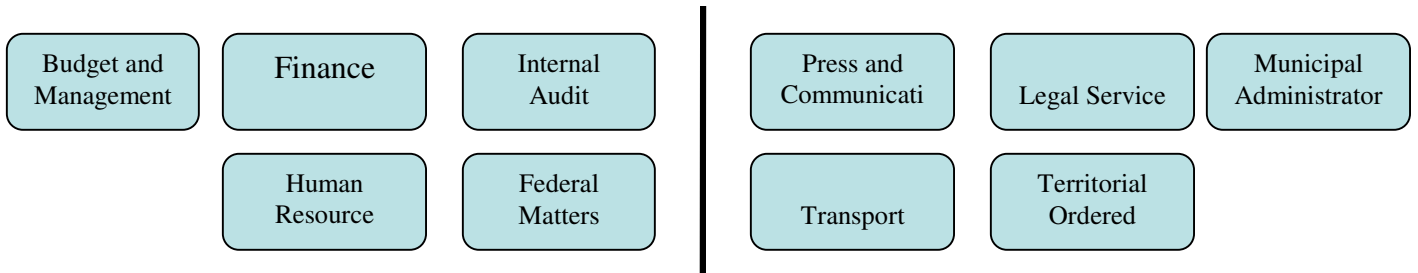
Mrs. Myrna Ortiz  
Finance Director

# Municipality of Ponce Organization Chart



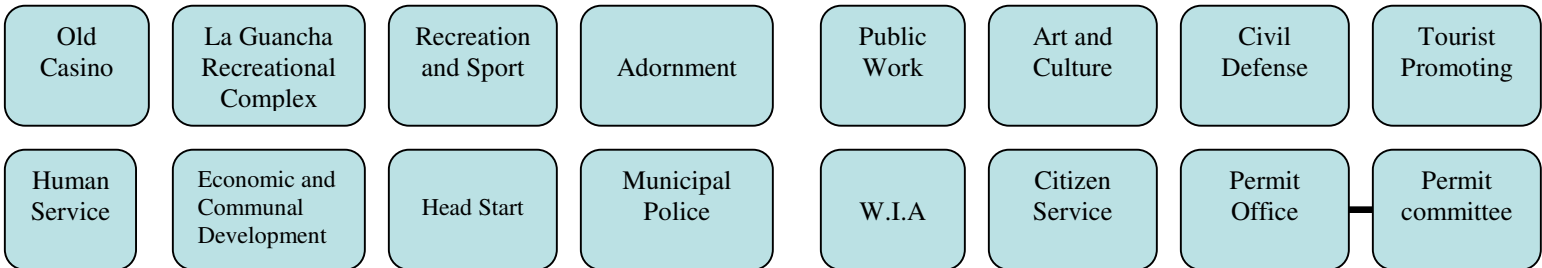

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## OFFICES OF PROFESSIONAL ADVICE



## OPERATIONAL DEPARTMENTS

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## **Municipality of Ponce**

### **List of Elected and Appointed Officials**

#### **Elected Officials**

##### **Mayor**

Rafael Cordero Santiago

##### **Legislative Municipality Assembly**

Luis A. Morales, President  
Enrique A. Vicéns, Vice President  
Pedro Pacheco Figueroa  
Enrique Amy Fernández  
Waldemar Vélez Silvagnoli, Majority Spokesperson  
René Garrastazú  
Daisy Silvagnoli Maldonado  
Simona Santiago Ruiz

Carlos L. Baéz Muñiz  
Freddie Martínez Sotomayor  
Juan H. Cintrón García  
Elioscar Pérez Ramírez  
Santos Silva Ojeda  
María Cristina Martínez Torres  
Ruth García Ortíz  
Nilda González González

#### **Appointed Officials**

Carlos Jirau  
Mirna Ortíz  
Camille Rivera  
Lilliam Santiago  
Mabel Pola  
Patricia Castaing  
Vilma Flores  
Ivonne Laborde  
Alex Lopéz  
Wilfredo Morales  
Minerva Canevaro  
Gerardo Tripari  
Aby Martínez  
Pedro Hernández  
Paul Fourquet  
Vangie Rivera  
José Medina Orta  
Maria De los Angeles Torres  
Gilberto Rodríguez  
Ramón Anglada  
Wanda Rodríguez Feria  
Juan Carlos Santiago  
Miguel Mercado

City Manager  
Office of Finance  
Office of Budget  
Office of Internal Audit  
Office of Press  
Office of Legal Affairs  
Office of Municipal Secretary  
Human Resources  
Department of Economic Development  
Department of Ornament  
Casino  
Office of Recreation Complex  
Department of Sport and Recreation  
Department  
Civil Defense  
Tourist development  
Human Services  
Head Start department  
Commissioner of Police and Public Safety  
Work Investment Act Department  
Citizens Services  
Historic Center  
License and Permits

## **Part II. Financial Section**

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Municipality of Ponce, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Corporación para el Desarrollo Económico de Proyectos Comerciales y de Vivienda de Ponce, C. D. ("CODEPCOVI") and of the Port of Ponce which are shown as discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CODEPCOVI and the Port of Ponce, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and reports of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Ponce as of June 30, 2002, and the results of its operations for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the basic financial statements, the Municipality of Ponce has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board (“GASB”) Statement No. 34, Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments, as of June 30, 2002

The Management’s Discussion and Analysis on pages 13 through 22 is not a required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality’s basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

San Juan, Puerto Rico  
October 25, 2002

The stamp 1812093 was affixed  
to the original of this report.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Municipality of Ponce's financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the transmittal letter on page 2 and the financial statements, which begin on page 11.

### **FINANCIAL HIGHLIGHTS**

- The Municipality's net assets increase as a result of this year's operations. Net assets as of June 30, 2002 are \$151.1 million, as compared to \$ 137.2 million for the year ended June 30, 2001, for a 10% of increase.
- During the year, the Municipality had revenues that were \$ 6.7 million more than the \$ 82.8 millions incurred in expenses for governmental programs. This compares to last year, when revenues exceeded expenses by \$8.6 million.
- The investment in capital assets for this year is \$ 11.4 million.
- Loans principal payments were \$3.9 million, decreasing long-term debt from \$195.8 million in 2001 to \$171.3 million in 2002.
- Resources available for appropriation were \$99.0 million more than budgeted for the General Fund. .

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 23 through 25) provide information about the activities of the Municipality as a whole and present a long-term view of the Municipality's finances. Fund financial statements start on page 26. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Municipalities' operations in more detail than the government-wide statements by providing information about the Municipality's most significant funds.

## **Reporting the Municipality as a Whole**

### **The Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and the Statement of Activities report information about the Municipality as a whole and about its activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Municipality's *net assets* and changes in them. You can think of the Municipality's net assets, the difference between assets and liabilities, as one way to measure the Municipality's financial health, or *financial position*. Over time, *increases or decreases* in the Municipality's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the roads, to assess the *overall health* of the Municipality of Ponce.

In the Statement of Net Assets and the Statement of Activities, we divide the Municipality into two kinds of activities:

- Governmental activities – Most of the Municipality's basic services are reported here, including the municipal police, public works, garbage disposal, public energy and health services, and general administration. Property taxes, municipal license tax, state and federal grants finance most of these activities.
- Component units – The Municipality includes two separate legal entities in its report, the Port of Ponce (POP) and the Corporación para el Desarrollo Económico de Proyectos Comerciales y de Vivienda de Ponce, C.D. (CODEPCOVI). Although legally separate, these "component units" are important because the Municipality is financially accountable for them.

## **Reporting the Municipality's Most Significant Funds**

### **Fund Financial Statements**

Our analysis of the Municipality's major funds begins on page 16. The Fund financial statements begin on page 26 and provide detailed information about the most significant funds, not the Municipality as a whole. Some funds are required to be established by bond covenants. The Municipality's basic services

MUNICIPALITY OF PONCE, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2002

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are reported in the governmental funds, that uses an accounting approach which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation on pages 28 and 31 of this report.

**THE MUNICIPALITY AS A WHOLE**

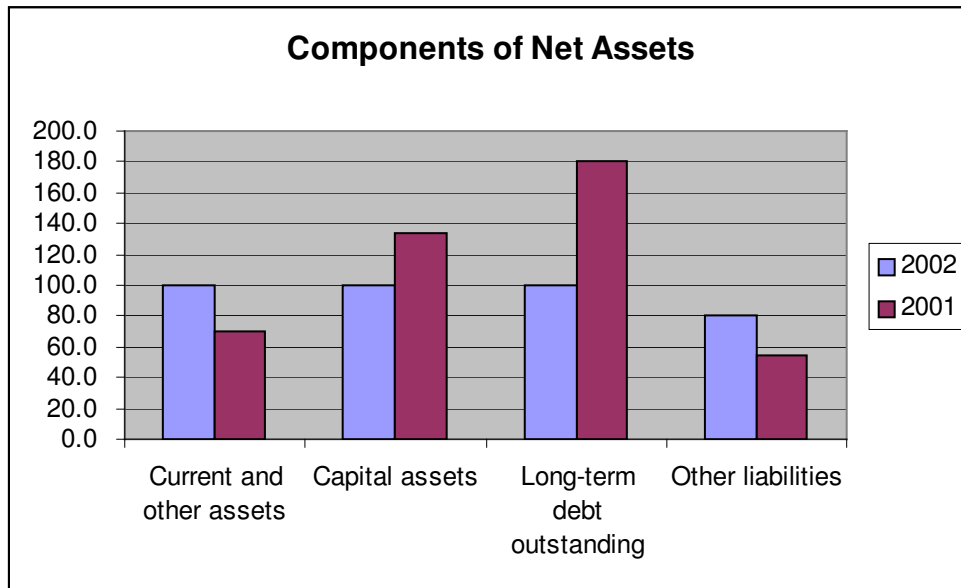
The Municipality's *combined* net assets increases from a year ago, from (\$32.2) million to \$ 7 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 3) of the Municipality's governmental and component unit's activities.

**Table 1**  
**NET ASSETS**  
**(in Millions)**

	Governmental Activities	
	2002	2001
Current and other assets	\$66.80	\$69.50
Capital assets	151.10	134.20
Total assets	217.90	203.70
Long-term debt outstanding	(156.90)	(181.0)
other liabilities	(60.37)	(54.9)
Total liabilities	(217.20)	(235.9)
Net assets:		
Invested in capital assets, net of related debt	79.40	34.3
Restricted for:		
Debt services	8.70	6.90
Capital project	31.00	38.4
Federal programs	0.10	0.16
Unrestricted	(118.5)	(111.96)
Net Assets	\$ 0.70	\$ (32.20)

MUNICIPALITY OF PONCE, PUERTO RICO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE YEAR ENDED JUNE 30, 2002

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Net assets of the Municipality's governmental activities increased by 32.9 million ((32.2) million compared to \$.7 million). *Unrestricted* net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, changed from approximately \$(111.96) million at June 30, 2001 to a \$(118.50) million at June 30, 2002.

**Governmental Activities**

Revenues for the Municipality's governmental activities increased by 19% (\$21.5 million), while total expenses increased by 17% (18.5 millions). The Municipality of Ponce took the following major actions this year to improve the financial position:

- The Mayor of the Municipality of Ponce made various committees to supervise the operations of all department of the Municipality. The component of those committee were meeting at least one time per week. In those meetings the Mayor received different reports like a cash-flow, budget vs. actual, aging of account payable and a management report with an explanations of the movement of each account and the status of the account payable and expenses. The financial decisions of the Mayor were supported by those reports.

MUNICIPALITY OF PONCE, PUERTO RICO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE YEAR ENDED JUNE 30, 2002

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- In the budget respect the administration of the Municipality received the estimated of expenses by each department, and the Budget Director and the Mayor performed the evaluation to those expenses and determine the needed of each one, looking for the reduction of those unnecessary expenses without affecting the daily operations.

The increases in the general government expenditures during the fiscal year ended June 30, 2002 was substantially related to the following:

**Table 2**  
**Governmental Activities**  
**(in Millions)**

	Total cost of services	
	2002	2001
General Government	\$32.60	\$23.80
Health and welfare	26.50	33.00
Public Work	17.40	14.3
Education	10.60	9.60
Public Safety	<u>9.10</u>	<u>7.60</u>
Totals	<u>\$96.20</u>	<u>\$88.30</u>

- Technical assistance required from Central Government Administration related to soil studies as part of the Las Americas Port,
- Technical assistance related to the compulsory implementation of the Governmental Accounting Standard Number 34, GASB 34,
- Legal assistance required in various cases against Central Government Agencies.

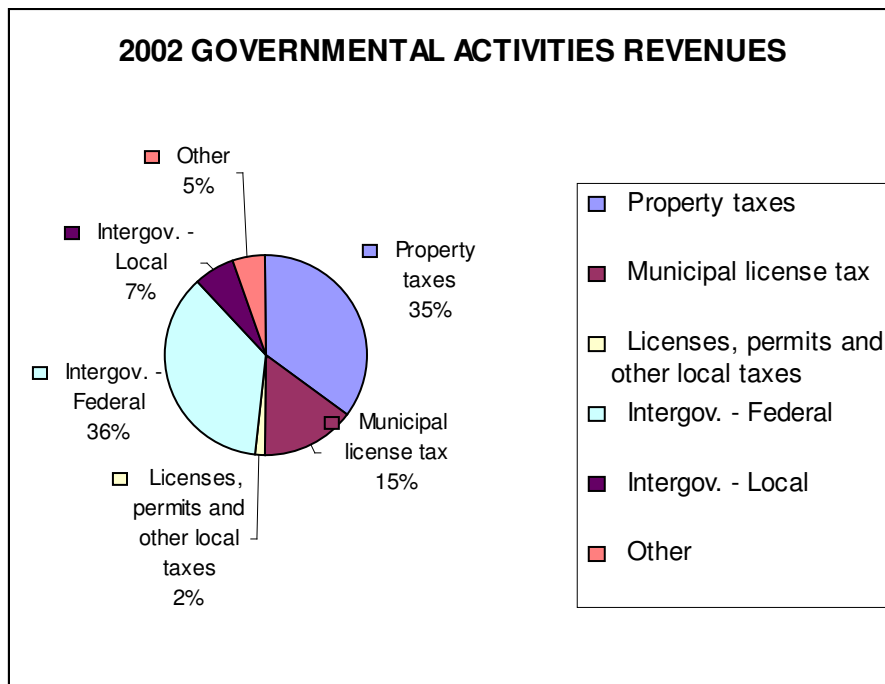
MUNICIPALITY OF PONCE, PUERTO RICO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE YEAR ENDED JUNE 30, 2002

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- During the year ended June 30, 2002 the Legislature of Puerto Rico enacted a Law ordering the increase in all governmental employees Christmas Bonus. The impact in the general fund was approximately \$300,000.

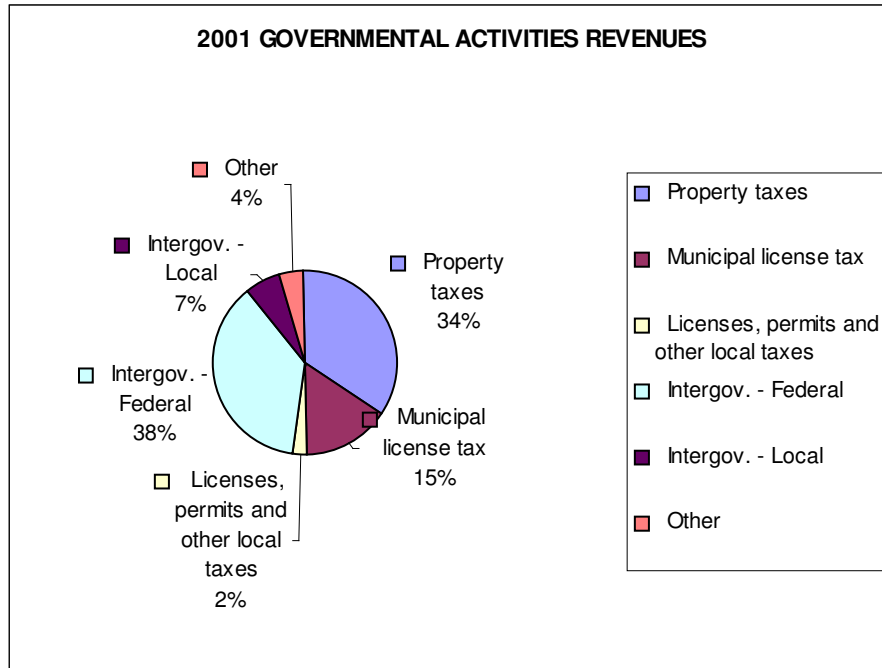
The major governmental revenue sources are property taxes, municipal license taxes, license and permits and grant and contributions not restricted, which in total represent \$112,932,189 (83%) and \$110,209,796 (94%) of all revenues in 2002 and 2001, respectively. Changes within these four sources of revenues were \$2.7 million.

The cost of all governmental activities this year was \$129.8 million compared to \$108.6 million last year. Table 2 presents the cost of each of the Municipality of Ponce's largest programs.



MUNICIPALITY OF PONCE, PUERTO RICO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE YEAR ENDED JUNE 30, 2002

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**THE MUNICIPALITY'S FUND**

As the Municipality completed the year, its governmental funds (as presented in the balance sheet on pages 26 – 27) reported a combined fund balance of \$ 23.5 million, which is lower than last year total of \$29.4 million.

In addition, these other changes in fund balance should be noted:

- The Municipality experienced an increase in the collection of Licenses and Permits due to the developments of construction project which began during the year. The taxes paid to the Municipality related to those constructions permits increases as result of the developments of the city organization plan,
- During this year the Municipality received payments from Central Government and Governmental Agencies as reimbursement and partial settled of various cases. Those amounts are classified this year as part of other revenues because all reimbursements amounts are related with expenses incurred by the Municipality in prior years. The detail of these amounts are as follow:

MUNICIPALITY OF PONCE, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2002

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- ◆ \$2.875 millions received as reimbursement from Puerto Rico Power Authority due to prior years excessive billing on public lighting,
- ◆ \$1.931 millions as reimbursement from Municipal Revenue Collection Center related to an incorrect retention during the last 3 years,
- ◆ \$9 millions received from Central Government as part of the amount due to the municipality from Ponce en Marcha case.

**General Fund Budgetary Highlights**

Over the course of the year, the Municipal Assembly revised the Municipality of Ponce budget several times. These budget amendments fall into various categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in May 2001). The second category includes changes that the Municipal Assembly made to take into consideration the amount received from CRIM related to a reimbursement of \$916,922, claim by the Municipality to CRIM for an incorrect retention of administrative expenses. See note 15 on the financial statements for further explanation.

Even with these adjustments, the actual changes to appropriations (expenditures) were \$99,004 thousand above the final budget amounts. The most significant negative variance (\$673,487) occurred in the intergovernmental revenues (state contribution account), because the municipality include as part of the state contribution the amount expected to be collected as indirect cost. These amounts was misclassify because the indirect cost should be classify as an expenses reduction. However, this amount related to indirect cost is properly recorded in the financial statement as an expense reduction.

MUNICIPALITY OF PONCE, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2002

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2002, the Municipality of Ponce had \$ 185 million invested in a broad range of capital assets, including buildings, parks, roads, bridges, and equipment. (See Table 4). This amount represents a net increase (including additions and deductions) of just over under \$9 million, or 5 percent, over last year.

**Table 4**  
**Capital Assets at Year-end**  
**(Net of depreciation, in Thousands)**

	Governmental Activities	
	2002	2001
Land	\$ 28.70	\$ 28.60
Buildings and Improvements	77.60	77.50
Construction in progress	22.80	7.60
Equipment	13.20	12.50
Infrastructure	43.30	42.50
Totals	<u>\$ 185.60</u>	<u>\$ 168.70</u>

The City's fiscal-year 2003 capital budget call for it to spend another \$40 million for capital projects, principally for the port of Ponce. The Municipality has plans to issue additional debt to finance this project. More detailed information about the Municipality's capital assets is presented in Note 10 to the financial statements.

**Debt**

At year-end, the Municipality had \$ 95.6 million in bonds and notes outstanding versus \$ 102.9 million last year, a decrease of 7.6 percent, as shown in Table 5.

MUNICIPALITY OF PONCE, PUERTO RICO  
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
 FOR THE YEAR ENDED JUNE 30, 2002

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**Table 5**  
**Outstanding Debt, at Year-end**  
**(in Thousands)**

	Governmental Activities	
	2002	2001
Bonds payable	\$75.30	\$80.70
Governmental Development Bank loan	20.30	22.20
Loan Guarantee Assistance notes	16.80	19.20
Advances from CRIM	50.50	50.50
Other obligations	10.50	23.20
Totals	<u>\$173.40</u>	<u>\$195.80</u>

New bonds in the amount of \$2 million were issued to finance improvements at the Municipal Port of Ponce. The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave, claims and judgments, and landfill obligation. More detailed information about the Municipality's long-term liabilities is presented in Note 14 to the financial statements.

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

The Municipality's elected and appointed officials considered many factors when setting the fiscal-year 2003 budget. Unemployment in the Municipality now stands at 12.3 percent.

Amounts available for appropriations in the General Fund for the fiscal year 2003 are \$80.8 million, an increase of 4 percent over the final 2002 budget of \$77.7 million. In overall the consolidated budget for the fiscal year 2003 is \$129 million, an increase of 4.3 percent over the 2002 budget of \$123.7 million. Construction excise taxes are expected to increase to \$8.2 million in 2003 from \$2.2 million in 2002, due to all scheduled construction of the Ponce en Marcha project, the Municipality's own public investment and the private sector investment. The Municipality will use these increases in revenues to finance programs we currently offer and the effect inflation will have on this programs.

Budgeted expenditures are expected to rise accordingly to the increase in budgeted revenues. Municipal police department budgeted expenditures are expected to be \$8.8 million, over \$3.6 million from fiscal year 2002. This new budgeted amount is necessary to cover the increase to a total of 420 municipal policemen.

MUNICIPALITY OF PONCE, PUERTO RICO  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2002

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If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of 2003.

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

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

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
STATEMENT OF NET ASSETS  
JUNE 30, 2002**

<b>Assets</b>	Primary Government	Component Unit	
	Governmental Activities	CODEPCOVI	Port of Ponce
Cash and cash equivalents <b>(Note 2)</b>	\$ 12,598,239	\$ 191,988	\$3,142,029
Cash with fiscal agent <b>(Note 2)</b>	46,962,812		
Loans and accounts receivables		99,093	187,705
Due from other agencies <b>(Note 9)</b>	3,789,937		
Other assests		21,370	113,300
Restricted assets:			
Cash in escrow account for landfill closure postclosure care costs <b>(Note 19)</b>	3,403,668		
Real estate projects under construction		12,354,948	
Capital assets,net <b>(Note 10)</b>	151,162,320		
Total assets	<u>217,916,976</u>	<u>12,667,399</u>	<u>3,443,034</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
STATEMENT OF NET ASSETS  
JUNE 30, 2002**

<u>Liabilities and Net Assets</u>	Primary Government	Component Unit	
	Governmental Activities	CODEPCOVI	Port of Ponce
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 14,203,327	\$ 4,516,741	\$ 505,793
Due to other agencies (Note 11)	1,217,033		
Deferred Revenues:			
Municipal license tax (Note 13)	14,428,134		
Federal Government (Note 13)	5,917,460		
Accrued interest	8,109,487		
Noncurrent liabilities (Note 14):			
Due within one year	16,444,103	6,501,427	
Due in more than one year	156,901,193	7,928	
Total liabilities	<u>217,220,737</u>	<u>11,026,096</u>	<u>505,793</u>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	79,436,909		
Restricted for:			
Federal Programs	123,073		
Debt service	8,663,131		
Capital projects	31,000,766		
Unrestricted	(118,527,640)	1,641,303	\$ 2,924,689
	<u>\$ 696,239</u>	<u>\$ 1,641,303</u>	<u>\$ 2,924,689</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
STATEMENT OF ACTIVITIES  
JUNE 30, 2002**

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	CODEPCOVI	Port of Ponce
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 32,626,262	\$ -	\$ -	\$ -	\$ (32,626,262)		
Public safety	9,114,264				(9,114,264)		
Public works	17,469,797	563,349		1,897,998	(15,571,799)		
Culture and recreation	7,763,733				(7,200,384)		
Health and welfare	26,523,136		15,190,491		(11,332,645)		
Urban development	16,767,127		16,608,703		(158,424)		
Legal services	852,146				(852,146)		
Education	10,654,550		10,651,201		(3,349)		
Interest on long-term debt	8,109,487				(8,109,487)		
Total primary government	<u>\$ 129,880,502</u>	<u>\$ 563,349</u>	<u>\$ 42,450,395</u>	<u>\$ 1,897,998</u>	<u>(84,968,760)</u>		
<b>Component units:</b>							
CODEPCOVI	3,750,429	2,987,983	447,500			(314,946)	
Port of Ponce	2,110,533	2,125,953					15,420
Total component units	<u>\$ 5,860,962</u>	<u>\$ 5,113,936</u>	<u>\$ 447,500</u>	<u>\$ -</u>	<u>-</u>	<u>(314,946)</u>	<u>15,420</u>
<b>General revenues:</b>							
Property taxes					43,025,904		
Municipal license tax					16,927,289		
Royalties and others					1,816,746		
Licenses, permits and other local taxes					3,284,751		
Grants and contributions not restricted to specific programs					7,243,850		
Interest and investment earning					2,189,785	5,894	
Miscellaneous					16,193,370	15,250	136,454
Total general revenues					<u>90,681,695</u>	<u>21,144</u>	<u>136,454</u>
Change in net assets					5,712,935	(293,802)	151,874
Net assets at the beginning of the year					<u>(5,016,696)</u>	<u>1,935,105</u>	<u>2,772,815</u>
Net assets at the end of the year					<u>\$696,239</u>	<u>\$1,641,303</u>	<u>\$2,924,689</u>

The accompanying notes are an integral part of the basic financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2002

<u>Assets</u>	<u>General</u>	<u>HUD Programs</u>	<u>Workforce Investment Act Program</u>	<u>Head start Programs</u>	<u>Debt Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents <b>(Note 2)</b>	\$ 8,836,880	1,657,666	747,938	696,020	-	659,735	12,598,239
Cash with fiscal agent <b>(Note 2)</b>	31,000,766				15,962,046		46,962,812
Due from other agencies <b>(Note 9)</b>		391,497	1,364,390	853,372	164,955	1,015,723	3,789,937
Advances to other funds <b>(Note 8)</b>	342,577			1,315			343,892
Restricted assets:		2,619,579					2,619,579
Cash in escrow account for landfill closure							-
postclosure care costs <b>(Note 19)</b>	3,403,668						3,403,668
 Total assets	 <u>\$ 43,583,891</u>	 <u>\$ 4,668,742</u>	 <u>\$ 2,112,328</u>	 <u>\$ 1,550,707</u>	 <u>\$ 16,127,001</u>	 <u>\$ 1,675,458</u>	 <u>\$ 69,718,127</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF PONCE**  
**BALANCE SHEET-GOVERNMENTAL FUNDS**  
**JUNE 30, 2002**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>HUD Programs</u>	<u>Workforce Investment Act Program</u>	<u>Head start Programs</u>	<u>Debt Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>							
Accounts payable and accrued liabilities	\$ 10,579,238	\$ 876,361	\$ 1,339,515	\$ 755,423	\$ -	\$ 652,790	\$ 14,203,327
Due to other agencies ( <b>Note 11</b> )	1,217,033						1,217,033
Advance from other funds ( <b>Note 8</b> )	2,620,858	23,261				319,352	2,963,471
General Obligations:							-
Bonds					5,360,000		5,360,000
Interest					2,103,870		2,103,870
Deferred Revenues:							-
Municipal license tax ( <b>Note 13</b> )	14,428,134						14,428,134
Federal Government ( <b>Note 13</b> )		3,662,220	772,813	795,284		687,143	5,917,460
Due in more than one year	<u>28,845,263.00</u>	<u>4,561,842.00</u>	<u>2,112,328.00</u>	<u>1,550,707.00</u>	<u>7,463,870.00</u>	<u>1,659,285.00</u>	<u>46,193,295.00</u>
Total liabilities							
<b>Fund Balance</b>							
Reserved for:							
Encumbrances	99,004						99,004
Federal Programs		106,900				16,173	123,073
Debt service					8,663,131		8,663,131
Advances	342,577						342,577
Landfill closure and postclosure care costs	3,400,000						3,400,000
Capital projects	31,000,766						31,000,766
Deficiency	<u>(20,103,719)</u>						<u>(20,103,719)</u>
Total fund balance	<u>14,738,628</u>	<u>106,900</u>	<u>-</u>	<u>-</u>	<u>8,663,131</u>	<u>16,173</u>	<u>23,524,832</u>
Total liabilities and fund balance	<u>\$ 43,583,891</u>	<u>\$ 4,668,742</u>	<u>\$ 2,112,328</u>	<u>\$ 1,550,707</u>	<u>\$ 6,127,001</u>	<u>\$ 1,675,458</u>	<u>\$ 69,718,127</u>

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
JUNE 30, 2002**

Total fund balances - governmental funds	\$23,524,832
Amounts reported for governmental activities in the statement of net assets are different because:	
<ul style="list-style-type: none"> <li>· Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet</li> </ul>	151,162,320
<ul style="list-style-type: none"> <li>· Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)</li> </ul>	( <u>173,990,913</u> )
Net assets of governmental activities	\$ <u>696,239</u>

**MUNICIPALITY OF PONCE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>General</u>	<u>HUD Programs</u>	<u>Workforce Investment Act Program</u>	<u>Head Start Program</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>							
Property taxes (Note 6)	\$ 31,047,148	\$ -		\$ -	\$11,978,756	\$ -	\$ 43,025,904
Municipal license taxes (Note 7)	16,927,289						16,927,289
Royalties and other	1,816,746						1,816,746
Licenses and permits	3,284,751						3,284,751
Charges for service and rents	563,349						563,349
Intergovernmental revenues (Note 12):							
Federal grants and contributions		16,608,703	10,651,201	13,007,334		2,183,157	42,450,395
State contributions	9,141,848						9,141,848
Interest, fines, and penalties	2,040,484				149,301		2,189,785
Other revenues	16,193,370						16,193,370
Total revenues	<u>81,014,985</u>	<u>16,608,703</u>	<u>10,651,201</u>	<u>13,007,334</u>	<u>12,128,057</u>	<u>2,183,157</u>	<u>135,593,437</u>
<b>EXPENDITURES</b>							
General government	29,712,061						29,712,061
Public safety	8,979,368						8,979,368
Public works	16,490,889						16,490,889
Culture and recreation	7,510,837						7,510,837
Health and welfare	10,779,890			13,007,334		2,183,157	25,970,381
Urban development	-	16,648,032					16,648,032
Legal services	852,146		10,651,201				852,146
Education	-						10,651,201
Capital outlays	11,478,985						11,478,985
Debt service:							
Principal	3,910,558				5,360,000		9,270,558
Interest and other	1,082,302		10,651,201		4,807,463		5,889,765
Total expenditures	<u>90,797,036</u>	<u>16,648,032</u>	<u>10,651,201</u>	<u>13,007,334</u>	<u>10,167,463</u>	<u>2,183,157</u>	<u>143,454,223</u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Excess (deficiency) of revenues over (under) expenditures	(9,782,051)	(39,329)	-	-	1,960,594	-	(7,860,786)
<b>OTHER FINANCING SOURCES (USES)</b>							
Loan proceeds							
Transfers in	\$ 2,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000
Transfers out	215,723						215,723
Total other financing sources							
(uses)	(2,215,723)	-	-	-	(215,723)	-	(215,723)
Net change in fund balance	(7,566,328)	(39,329)	-	-	1,744,871	-	(5,860,786)
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	22,304,956	146,229			6,918,260	16,173	29,385,618
<b>FUND BALANCE AT END OF YEAR</b>							

The accompanying notes are integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Net change in fund balances - total governmental funds (\$5,860,786)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 11,478,985
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 9,270,558
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. ( 2,000,000)
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. ( 2,956,100)
- Change in accrued interest expense which does not require the use of current financial resources. ( 2,219,722)
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. ( 2,000,000)

Changes in net assets of governmental activities \$ 5,712,935

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
STATEMENT OF REVENUES AND EXPENDITURES - GENERAL AND DEBT SERVICE FUNDS - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget-Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget-Positive (Negative)
	Original	Final			Original	Final		
<b>REVENUES</b>								
Property taxes	\$31,443,237	\$31,443,237	31,047,148	\$(396,089)	\$18,905,063	\$ 8,905,063	\$ 1,978,756	\$ 3,073,693
Municipal license taxes	17,175,000	17,175,000	16,927,289	(247,711)				
Royalties and other	1,704,000	1,704,000	1,816,746	112,746				
Licenses and permits	2,315,000	2,315,000	3,284,751	969,751				
Charges for service and rents	464,350	464,350	563,349	98,999				
Intergovernmental revenues:								
State contributions	7,659,911	7,659,911	6,986,424	(673,487)				
Interest, fines and penalties	2,020,000	2,020,000	2,040,484	20,484			149,301	149,301
Other revenues	14,912,865	15,829,771	16,193,370	363,599				
Total revenues	77,694,363	78,611,269	78,859,561	248,292	8,905,063	8,905,063	12,128,057	3,222,994
<b>EXPENDITURES</b>								
General government	32,951,698	28,982,944	29,224,760	(241,816)				
Public safety	6,599,398	8,979,368	8,972,120	7,248				
Public works	14,619,912	16,530,489	16,445,449	85,040				
Culture and recreation	6,836,732	7,493,572	7,518,977	(25,405)				
Health and welfare	10,411,467	10,779,890	10,779,281	609				
Legal services	812,981	852,146	769,143	83,003				
Debt service:				-				
Principal	5,462,175	3,910,558	3,910,558	-	5,013,023	5,013,023	5,360,000	346,977
Interest		1,082,302	1,082,302	-	3,892,040	3,892,040	4,807,463	915,423
Total expenditures	77,694,363	78,611,269	78,702,590	(91,321)	8,905,063	8,905,063	10,167,463	1,262,400
Excess of revenues over Expenditures	\$ -	\$ -	\$ 156,971	\$ 156,971	\$ -	\$ -	\$ 1,960,594	\$ 1,960,594

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF PONCE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION**

The Municipality of Ponce, Puerto Rico (Municipality) was founded in 1692. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 16 members. The members of these branches are elected every four years in the Puerto Rico general elections.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For fiscal year ended June 30, 2002, the Municipality implemented GASB Statement No. 33 (GASB 33), Accounting and Financial Reporting for Nonexchange Transactions; GASB Statement No. 34 (GASB 34), Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 36 (GASB 36), Recipient Reporting for Certain Shared Non exchange Revenues (and amendment of GASB 33); GASB Statement No. 37 (GASB 37), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; GASB Statement No. 38 (GASB 38), Certain Financial Statements Disclosures; and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

GASB 34, as amended by GASB 37, establishes new requirements and a new reporting model for the financial statements of state and local governments. GASB 34 was developed to make the financial statements easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

- Management's Discussion and Analysis - GASB 34 requires the financial

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF PONCE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

- statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of management's discussion and analysis (MD&A).
- Government - Wide Financial Statements - The new reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- Statement of Net Assets - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.
- Statement of Program Activities - The new government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

GASB 33, as amended by GASB 36, establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

GASB 38 establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance - related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers with GASB 34 is implemented.

The following is a summary of the more significant policies:

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity", of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a 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 exist 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. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The following discretely presented component units are in the basic financial statements because of the nature of the services they provide and the Municipality's ability to impose its will.

**Port of Ponce (POP)** was formed as a result of an ordinance, 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.

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**Corporación para el Desarrollo Económico de Proyectos Comerciales y de Vivienda de Ponce, C.D. (CODEPCOVI)** was incorporated on September 23, 1985, as a public nonprofit corporation to promote the economic development of the City of Ponce, originally under the name of Ponce Economic Development Corporation. CODEPCOVI'S principal activity consists of granting loans to small businesses. CODEPCOVI'S activities are principally financed through contributions from the Municipality using federal assistance and interest charges to borrowers.

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

*Administrative offices:*

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

Corporación para el Desarrollo Económico de Proyectos Comerciales y de Vivienda de Ponce, C. D.  
Condominio Ponciana 3-D  
Marina 16  
Ponce, Puerto Rico 00731

**b. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues

include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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.

#### c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus*. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are 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.

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 revenues 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 government.

The Municipality reports the following major governmental funds:

#### 1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

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2) HUD Programs Fund

This fund accounts for revenue sources 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.

3) Workforce Investment Act Fund

This fund accounts for revenue sources to help people access the tools they need to manage their careers through information and high quality services and to help U. S. companies find skilled workers.

4) Head Start Program Fund

This fund accounts for revenue sources 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.

5) Debt Service Fund

This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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. 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, than unrestricted resources as they are needed.

#### d. Cash, Cash Equivalents, and Cash with Fiscal Agent

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

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

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

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

#### e. Receivables

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

Loans and accounts receivable of the discretely presented component units are mainly composed of low-income housing mortgages, commercial loans, and charges for services, net of estimated allowances for uncollectible amounts.

#### f. Interfund Receivables and Payables

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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.

**g. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental or component units columns in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<b><u>Useful Life</u></b>
Buildings and building improvements	20-50 years
Land improvements	20-30 years
Machinery and equipment	5-20 years
Infrastructure 20-50 years	

**h. Real Estate Projects under Construction**

Real estate projects under construction represent the cost of acquisition of real estate and other construction costs incurred by CODEPCOVI for the purpose of developing low-income housing projects for sale to qualifying applicants.

i. Reservation of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditure. The Municipality has the following reservations of fund balance:

1) Encumbrances

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

2) Federal Programs

Represents the reservations of amounts available for specific use under federal grant programs.

3) Advances

Represents the reservations of amounts advanced among the funds of the primary government which are not considered to be current available financial resources.

4) Landfill Closure and Postclosure Care Costs

Represents the reservation of the amount required to be held and deposited in an escrow account to cover the closure and postclosure care costs of the municipal solid waste landfill facilities. At June 30, 2002, the amount reserved for landfill and postclosure care costs was \$3,400,000.

5) Debt Service

Represents net assets available to finance future debt service payments.

6) Capital Project Funds

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

j. 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

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the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2002 amounted to approximately \$1.9 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$2.1 million for workers compensation insurance covering all municipal employees. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

**k. Compensated Absences**

Employees accumulate vacation leave at a rate 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 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

**l. 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.

**m. Reclassifications to Component Units Amounts**

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

n. Future Adoption of Accounting Pronouncements

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

<u>Statement Number</u>	<u>Adoption Required</u>	<u>in Fiscal Year</u>
39	Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statements No. 14.	2003-04

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

3. 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 GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Assembly prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Assembly. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Assembly.

The Municipality prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures – Budget and Actual (Budgetary Basis), accordingly, includes only the operations of the general and the debt service funds. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP 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 Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

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The annual budget is presented in the Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) is the budget ordinance to June 30, 2002 representing the original budget.

**b. Budget/GAAP Reconciliation**

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2002 is presented below for the general, and debt service funds:

	<u>General</u>	<u>Debt Service</u>
Excess of revenues over expenditures - budgetary basis	\$ 156,971	\$1,960,594
Entity differences:		
Non-budgeted funds	( 7,739,722)	
Non-budgeted transfers	215,723	( 215,723)
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(\$ 298,304)	
Current year encumbrances recorded as expenditures for budgetary purposes	<u>99,004</u>	
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	( <u>\$7,566,328</u> )	<u>\$1,744,871</u>

**c. Legal Compliance**

The legal level of budgetary control is at the individual department level for general

fund expenditures, and principal and interest due for the debt service fund.

#### 4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this \$171,953,767 difference are as follows:

Bonds and notes payable	\$107,007,322
Advances from CRIM	50,533,654
Accrued interest payable	6,005,617
Compensated absences	<u>8,407,174</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$171,953,767</u>

#### 5. DEPOSITS AND INVESTMENTS

Under 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 bank balances in commercial banks of approximately \$9.7 million in the general fund were fully collateralized at June 30, 2002. The deposits at GDB of approximately \$3.4 million that are restricted principally for capital projects, and the \$16.0 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

#### 6. PROPERTY TAXES

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The Municipal Revenues 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 tax on personal property 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 tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the 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:

Basic property	6.00%	4.00%	
Additional special property - state		1.03%	1.03%
Additional special property - municipal		1.50%	1.50%
Discounts made by state to tax payer		< .20% >	< .20% >
		<u>8.33%</u>	<u>6.33%</u>

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

The "Additional special property tax - 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.

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.

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, 2002, presented as noncurrent liabilities in the government-wide financial statements amounted to approximately \$50.5 million.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2001-02, but not the final settlement as the six months period after fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2002, the amount received in advances from CRIM exceeded the amount collected from taxpayers and charges by CRIM for the same period by approximately \$374,000. Such amount is presented as due to the agencies in the basic financial statements (refer to Note 11).

During the fiscal year ended June 30, 2002, transactions regarding property tax advances were as follows:

Due from the Municipal Revenues Collection	
Center June 30, 2001	\$ 1,334,017
Current year advances	( 31,443,237)
Collection of property taxes	31,047,148
Payment received from CRIM	( 916,922)
Adjustments	( <u>395,286</u> )
Due to the Municipal Revenues Collection	
Center, June 30, 2002	(\$ <u>374,280</u> )

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On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, 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 1999-2000. The amount 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.

**7. MUNICIPAL LICENSE TAX**

Municipal License Tax are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2002. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Ponce, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

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

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

8. INTERFUND TRANSACTIONS

Interfund receivables and payables balances at June 30, 2002 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
HUD	General Fund	\$2,619,579
General Fund	HUD	16,463
General Fund	Nonmajor Governmental Funds	326,114
Head Start	General Fund	<u>1,315</u>
		<u>\$2,963,471</u>

Interfund transfers between the general and debt service funds represent the interest income received from the CRIM.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Department of Labor - WIA	\$1,364,390
HHS - Head Start 853,372	
Federal Emergency Management Agency	740,096
HUD - HOME Program	327,711
HHS - Ryan White	222,061
Municipal Revenue Collection Center (CRIM)	164,976
HUD - Emergency Shelter	37,823
HUD - Initiative	25,963
Other	<u>53,545</u>
Total	<u>\$3,789,937</u>

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10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002 was as follows:

<b><u>Primary Government</u></b>	<b><u>Balance</u></b> <b><u>June 30,2001</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Balance</u></b> <b><u>June30,2002</u></b>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 24,327,718	\$ 112,000	\$ -	\$ 24,439,718
Construction in progress	7,611,429	15,210,693		22,822,122
Total capital assets, not being depreciated	<u>31,939,147</u>	<u>15,322,693</u>	-	<u>47,261,840</u>
Capital assets being depreciated:				
Building and building improvements	77,546,609	53,105		77,599,714
Land improvements	4,339,196	18,065		4,357,261
Machinery and equipments	12,591,524	631,878		13,223,402
Infrastructure	42,520,663	799,796		43,320,459
Total capital assets being depreciated	<u>136,997,992</u>	<u>1,502,844</u>	-	<u>138,500,836</u>
Less accumulated depreciation for:				
Buildings and buildings improvements	12,404,996	1,434,259		13,839,255
Land improvements	888,622	75,179		963,801
Machinery and equipments	7,867,822	667,145		8,534,967
Infrastructure	10,482,816	779,517		11,262,333
Total accumulated depreciation	<u>31,644,256</u>	<u>2,956,100</u>	-	<u>34,600,356</u>
Total capital assets, being depreciated, net	<u>105,353,736</u>	<u>(1,453,256)</u>	-	<u>103,900,480</u>
Governmental activities capital assets, net	<u>\$ 137,292,883</u>	<u>\$13,869,437</u>	\$ -	<u>\$151,162,320</u>

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

General government	\$ 914,201
Public safety	134,896
Public work	978,908
Culture	252,896
Recreation	552,755
Health and welfare	119,095
Legal services	<u>3,349</u>
Total depreciation expense	<u><u>\$2,956,100</u></u>

11. Due to other Agencies

Due to other agencies al June 30, 2002 are as follow:

Employee's Retirement System	\$ 634,029
Puerto Rico Electric Power Authority	208,724
Municipal Revenues Collection Center	<u>374,280</u>
Total	<u><u>\$ 1,217,033</u></u>

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12. INTRGOVERNMENTAL REVENUES

Intergovernmental revenues consist mainly of collections from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain public corporations, principally the Puerto Rico Electric Power Authority and from the CRIM.

Following is a detail of intergovernmental revenues:

Puerto Rico Electronic Power Authority	\$ 6,224,911
Joint resolutions	1,897,998
Reimbursements from the commonwealth of Puerto Rico of Christmas bonus expenditure	755,080
Citizen Participation for the Municipal Development program-CRIM	<u>263,859</u>
Total	<u>\$ 9,141,848</u>

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of approximately \$14.4 million in the general fund related to the municipal license tax collected in fiscal years 2001-2002 that will be earned in fiscal year 2002-2003.

b. Federal Government

The deferred revenues presented as federal governments the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. These were related to the following federal programs/ grants:

Program/ Grant Description

Head Start	\$ 795,284
Lower Income Housing Assistance and Section 8 Housing Voucher	1,478,060
Loan Guarantee Assistance	1,562,306
Workforce Investment Act	746,407
Welfare to Work	26,406
Community Development Block Grant	519,706
HUD Disaster Recovery Initiative-Hortence	70,000
Huracane Georges	30,096
Housing Administration-St. Thomas	2,042
Home devolution	184,507
Rental Rehabilitation	51,673
Local Law enforcement	344,329
San Antón Project	106,644
	<hr/>
Total	<u><u>\$ 5,917,460</u></u>

14. LONG-TERM DEBT

Bonds and notes payable outstanding at June 30,2002 consist of:

**Bonds**

1991 serial bonds due in annual installments of \$420,000 to \$1,415,000, through July 1, 2006; with interest ranging from 3.26% to 6.36%.	\$ 4,995,000
1992 serial bonds due in annual installments of \$150,000 to \$390,000, through July 1, 2007; with interest ranging from 4.16% to 6.41%.	1,710,000
1992 special obligations due in annual installments of \$440,000 to \$2,010,000, through July 1, 2012; with interest ranging from 5% to 8%.	14,060,000
1997 general obligations due in annual installments of \$410,000 to \$1,220,000, through July 1, 2011; with interest ranging from 4.87% to 6.75%.	8,225,000
1997 general obligations due in annual installments of \$345,000 to \$695,000, through July 1, 2006; with interest ranging from 6% to 8%.	2,480,000
1999 general obligations due in annual installments of \$1,040,000 to \$1,990,000, through July 1, 2008; with interest ranging from 6% to 7.50%.	10,050,000
1999 general obligations due in annual installments of \$115,000 to \$320,000, through July 1, 2013; with interest ranging from 4.87% to 6.11%.	2,500,000

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1999 general obligations due in annual installments of \$165,000 to \$230,000, through July 1, 2004; with interest ranging from 7.29% to 8%.	445,000
2001 general obligations bonds due in annual installments of \$435,000 to \$2,755,000, through July 1, 2025; with interest ranging from 6.13% to 8%.	<u>30,860,000</u>
Total outstanding bonds	<u><u>\$ 75,325,000</u></u>

**Notes**

\$32,000,000 note payable in semiannual payments of principal and interest of \$2,800,000 until July 2006 bearing interest at one half percent (1/2%) over the 90 day LIBOR rate.	\$ 18,297,322
\$2,000,000 note payable which will be repaid from a future bond issuance, bearing interest at 8% to be paid at maturity.	<u>2,000,000</u>
Total outstanding notes	<u>20,297,322</u>
Total bonds and notes payables	<u><u>\$ 95,622,322</u></u>

### **Loan Guarantee Assistance (LGA) Notes**

These notes are payable in annual aggregates principal installments of \$2,500,000, plus interest rates which fluctuates from 8.04% to 8.19%. These notes are guaranteed by the federal governments through the Loan Guarantee assistance Program and will be repaid from future appropriations to the Municipality's Community Development Grant for Puerto Rico program.

### **Advances from CRIM**

These amounts represent the balance owed to CRIM at June 30, 2002 as described in Note 6, and that will be repaid through a financing to be obtained by the CRIM, as authorized by law and as explained in that note.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF PONCE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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

<u><b>Bonds Payable</b></u>	<u><b>Principal</b></u>	<u><b>Interest</b></u>
2003	\$ 5,785,000	\$ 5,610,318
2004	6,260,000	5,202,787
2005	6,530,000	4,759,378
2006	7,060,000	4,297,179
2007	5,340,000	3,795,439
2008-2011	17,195,000	11,657,797
2012-2016	8,570,000	9,151,322
2017-2021	8,735,000	6,143,200
2022-2025	9,850,000	2,046,000
	<u>\$ 75,325,000</u>	<u>\$ 52,663,420</u>
<u><b>Notes Payables</b></u>		
2003	\$ 6,159,103	\$ 1,381,886
2004	4,424,061	1,043,944
2005	4,706,520	684,460
2006	5,007,638	302,012
	<u>\$ 20,297,322</u>	<u>\$ 3,412,302</u>
<u><b>Loan Guarantee Assistance Notes</b></u>		
2003	\$ 2,500,000	\$ 1,117,283
2004	2,500,000	926,055
2005	2,505,000	734,135
2006	2,325,000	547,921
2007	1,210,000	413,832
2008-2011	2,940,000	1,026,464
2012-2016	2,765,000	446,989
	<u>\$ 16,745,000</u>	<u>\$ 5,212,679</u>

The municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of debt service fund should be sufficient to cover the project debt service requirement. Total property assessed value at June 30, 2002 amounted to approximately \$825 millions. Long-term debt, expected for the bonds payable and the loan guarantee assistance notes, is paid with unrestricted funds.

**Component Units**

The notes payables by the discretely presented component units are owed by CODEPCOVI and are composed of the following:

**CODEPCOVI**

Construction loan bearing interest at 1.5 % over the prime rate, collateralized by the Municipality and a mortgage note over real estate, due as housing units are sold.	\$ 6,497,740
Loan bearing interest at 7.9% payable in monthly installments of \$430 due in June 2005 secured by motor vehicles.	<u>11,615</u>
Total	<u><u>\$ 6,509,355</u></u>
Fixed maturities requires to pay principal of CODEPCOVI motor vehicles loans were as follow:	
2003	\$ 3,687
2004	3,927
2005	<u>4,001</u>
Total	<u><u>\$ 11,615</u></u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Long-term liability activity for the year ended June 30, 2002 was as follows:

<b>Primary Government: Governmental Activities:</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due within One year</b>
Bonds Payable	\$ 80,685,000	\$ -	\$ (5,360,000)	\$ 75,325,000	\$ 5,785,000
Notes payable	22,207,885	2,000,000	(3,910,563)	20,297,322	6,159,103
Loan guarantee assistance notes	19,245,000		(2,500,000)	16,745,000	2,500,000
<b>Total bonds and payable</b>	<u>122,137,885</u>	<u>2,000,000</u>	<u>(11,770,563)</u>	<u>112,367,322</u>	<u>14,444,103</u>
Advances from CRIM	50,533,654			50,533,654	
Claims and judgments	2,500,000		(2,500,000)	-	
Compensated absences	9,598,431	845,889	-	10,444,320	2,000,000
<b>Total other liabilities, Governmental activities</b>	<u>62,632,085</u>	<u>845,889</u>	<u>(2,500,000)</u>	<u>60,977,974</u>	<u>2,000,000</u>
<b>Total noncurrent liabilities, Governmental activities</b>	<u>\$ 184,769,970</u>	<u>\$ 2,845,889</u>	<u>\$ (14,270,563)</u>	<u>\$ 173,345,296</u>	<u>\$ 16,444,103</u>
<b>Component Units:</b>					
CODEPCOVI:					
Notes Payable	<u>\$ 6,790,580</u>	<u>\$ -</u>	<u>\$ (281,225)</u>	<u>\$ 6,509,355</u>	<u>\$ 6,501,427</u>

**15. RETIREMENT PLAN**

**a. Plan Description**

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

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

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

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

Member 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 (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-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2 % of the average compensation multiplied by the number of the year 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 received 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

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

On September 24, 1999, an amendment to Act. 447 of May 15, 1951, which created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in defined benefit plan or transfer to the new program. Persons joining the Municipality an on after January, 2000, will only be allowed to become member 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 pian.

**COMMONWEALTH OF PUERTO RICO**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.25% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Notes 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 statement 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.

b. Contribution Requirement

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$ 6,600. The Municipality contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2002 was approximately \$3.2 million. The Municipality's payroll for employees covered by ERS was approximately \$34.6 million. The Municipality total payroll for all employees was approximately \$44.7 million. For the two preceding fiscal years, which represented 100% of required contributions.

Additional information of ERS is presented in its financial statements for the year ended June 30, 2002 a copy of which can be obtained from ERS, Minillas Station, P.O Box 42003, San Juan, PR 00940

16. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management division complies the information of all property owned and its respective market value. After evaluating this information, the Rick Management Division submits 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.

17. COMMITMENTS

a. Primary Government

1) Operating Leases

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 expenditure recorded in the basic financial statements for the year ended June 30, 2002, amounted to approximately \$1.7 millions. Management believes that the summary of the future minimum rental commitments under no cancelable real property and equipment lease with terms exceeding one year is not significant.

2) Construction

The Municipality had commitments at June 30, 2002 of approximately \$31 million for the construction, improvements, or renovation of several municipal facilities.

b. Components Units

Port of Ponce

The Port of Ponce is the lessor of certain dock and warehousing facilities. Future minimum rentals receivable under such leases at June 30, 2002 are as follow:

2003	\$ 863,311
2004	827,843
2005	827,843
2006	827,843
2007	<u>827,843</u>
Total	<u>\$4,174,683</u>

18. CONTIGENCIES, LIABILITIES FOR CLAIMS AND JUDGEMENT AND OTHER

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF PONCE**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

a. Contingencies and Claims and Judgments against the Municipality

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions. It is management's opinion, based on the Municipality not covered by insurance will not materially affect the financial condition of the Municipality.

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The "Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133" for the year ended June 30, 2002, disclosed several material instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls.

If expenditures are disallowed due to noncompliance with grant program regulations, the regulations, the Municipality will be able to comply with the terms of corrective actions 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.

b. Primary Government Litigations and Claims in Favor of the Municipality

In June 1996, the Ponce Superior Court of the Puerto Rico Court of First Instance entered judgment in favor of the Municipality against several government agencies and the Central Government. Through this judgment, the court ordered the defendant to conduct about 54 projects, which management estimates cost approximately \$160 million, which were included in the Municipal Land Use Plan, and also ordered the defendants to pay the Municipality damages in the amount of \$16.5 million. The parties involved were notified of the judgment on June 26, 1996 and from that date, the amount of the judgment earns interest at 5 % annually. The judgment was appealed by all defendants to the Circuit Court and on December 2, 1997 the Circuit Court of Appeals upheld the judgment entered by Ponce Superior Court. However, the Court modified the damage award and determined that the precise amount of damage to be granted to the Municipality should be determined once the projects covered by the judgment are finished. The Municipality was denied a reconsideration of this determination and appealed to the Supreme Court in April 1998 with the purpose of reinstating the damage award. In December 2000, Supreme Court entered a judgment in favor of the Municipality. Since then, management has been negotiating with the Central Government a work schedule for the realization of the project and the collection of the damage. During 2002, the Municipality received \$9 million related to this case which is included as other revenues in the accompanying basic financial statements.

19. CLOSURE AND POSTCLOSURE CARE COST AND LANDFILL OBLIGATIONS

The Municipality owns a landfill, which is used by several municipalities including Ponce and administered by BFI Industries, the landfill administrator, and independent private entity, under an agreement with the Municipality. The Municipality is entitled, under the agreement with the administrator, to certain revenues, principally royalties, resulting from the use of the landfill. In addition, a portion of these revenues is to be deposited in a escrow account to fund the accumulated liability to cover estimated closure and post-closure cost of the landfill. For the year ended June 30,2002, revenues earned under the agreement amounted to \$1.8 million and presented in the accompanying statement of revenues, expenditures and changes in fund balances. The amounts deposited in escrow account part of the agreement with the landfill administrator are presented in accompanying statement of net assets as cash held in escrow account for landfill closure and post-closure care cost. At June 30, 2002 the portion of the revenues required to be deposited in the escrow account was \$3.4 million (same as June 30, 2001).

State and federal laws and regulations require the Municipality to place a final cover on the Municipality's landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In accordance with Statement No. 18 of the "GASB", "Accounting for the Municipal Solid Waste Landfill Closure and Post-Closure Care Cost", 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. Based in the last study performed in October 2001, as the Municipality's estimated obligation for the landfill closure and post-closure care cost. The estimated amount of \$11 million id based in what it would cost to perform all closure and post-closure care in 2002. At June 30, 2002, the percentage of landfill capacity used to date was approximately 68% and the estimated remaining life was approximately 4.7 years.

20. SUBSEQUENT EVENTS

On August 23, 2002, the Government Development Bank for Puerto Rico (GDB) issued \$40,000,000 of revenues bonds to the Municipality of Ponce, authorized by the Municipal Ordinance number 61, Series 2001-2002 and the Resolutions number 7809 and 7794 of the Board Directors of the GDB. The proceeds if this loan is to finance improvements to the Port of Ponce and to cancel a loan of \$2,000,000.

The principal and interest of this loan will be paid by future revenues from the operations of Port of Ponce, and if it is necessary, it will be paid with the withholdings over the Basic Contribution of the Municipality. The CRIM will with held from the monthly payments to the Municipality the amount necessary to cover such payments.

The annual interest rate for the revenues bonds will not exceed 12%. Otherwise, it will accumulate interest over a variable interest rate revised in October 1, January 1, April, and July every year until the bonds are sold.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF PONCE  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**COMBINING SCHEDULES**

**MUNICIPALITY OF PONCE**

General Fund

Comparative Balance Sheets

June 30, 2002 and 2001

<b>Assets</b>	<u>2002</u>	<u>2001</u>
Cash and cash equivalents	\$ 5,836,880	\$ 4,955,530
Cash with fiscal agent	3,000,000	
Accounts receivable :		
Municipal license tax		201,390
Intergovernmental		231,078
Due from other governmental entities		1,334,017
Advances to other funds	342,577	447,479
Restricted assets :		
Cash with fiscal agent	31,000,766	36,626,726
Cash held in escrow account for landfill closure and post-closure care costs	<u>3,403,668</u>	<u>3,400,000</u>
 Total assets	 <u>\$ 43,583,891</u>	 <u>\$ 47,196,220</u>
 <b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 11,213,276	\$ 7,749,634
Due to component unit		270,820
Due to other agencies	582,995	
Advances from other funds	2,620,858	3,390,306
Deferred municipal license tax revenues	<u>14,428,134</u>	<u>13,480,504</u>
 Total liabilities	 <u>28,845,263</u>	 <u>24,891,264</u>
 <b>Fund Balance</b>		
Reserved for :		
Encumbrances	99,004	298,304
Advances	342,577	447,479
Landfill closure and post-closure care costs	3,400,000	3,400,000
Capital projects	31,000,766	38,419,109
Unreserved fund balance (deficiency)	<u>(20,103,719)</u>	<u>(20,259,936)</u>
 Total fund balance	 <u>14,738,628</u>	 <u>22,304,956</u>
 Total liabilities and fund balance	 <u>\$ 43,583,891</u>	 <u>\$ 47,196,220</u>

**MUNICIPALITY OF PONCE**

General Fund

Comparative Statements of Revenues,  
Expenditures and Changes in Fund Balance

Years ended June 30, 2002 and 2001

	2002	2001
Revenues :		
Property taxes	\$31,047,148	\$ 30,525,867
Municipal license tax	16,927,289	17,207,104
Royalties and other	1,816,746	1,836,061
Licenses and permits	3,284,751	2,303,993
Charges for service and rents	563,349	254,921
Intergovernmental revenues - State Contributions	9,141,848	7,479,839
Interests, fines and penalties	2,040,484	1,171,742
Other revenues	16,193,370	1,183,293
	\$81,014,985	\$ 61,962,820
Total revenues		
Expenditures :		
General government	29,712,061	23,850,734
Public safety	8,979,368	6,405,239
Public works	16,490,889	14,355,530
Culture and recreation	7,510,837	6,710,750
Health and welfare	10,779,890	10,687,796
Legal services	852,146	750,619
Capital outlays	11,478,985	8,057,043
Debt service :		
Principal retirement	3,910,558	3,677,423
Interest and other	1,082,302	1,846,544
	90,797,036	76,341,678
Total expenditures		
Deficiency of revenues under expenditures	(9,782,051)	(14,378,858)
Other financing sources (uses) :		
Transfers to component unit		(315,000)
Operating transfers from other funds	215,723	470,858
Proceeds from Municipal Finance Agency		714,993
Loan proceeds	2,000,000	31,765,000
	2,215,723	32,635,851
Total other financing sources		
Excess (Deficiency) of revenues over (under) expenditures and other financing sources (uses)	(7,566,328)	18,256,993
Fund Balance at beginning of year	22,304,956	4,047,963
Fund Balance at end of year	\$14,738,628	\$ 22,304,956

**MUNICIPALITY OF PONCE**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30,2002**

Assets

	<u>Home devolutions</u>	<u>Ryan White</u>	<u>F.E.M.A.</u>	<u>Program income quality health</u>	<u>Local law</u>	<u>San Anton</u>	<u>Total Nonmajor governmental funds</u>
Cash and cash equivalent	184,507	389	16,087	7,883	344,329	106,540	659,735
Federal grant receivable		275,627	740,096				1,015,723
Total assets	<u>\$ 184,507</u>	<u>\$ 276,016</u>	<u>\$ 756,183</u>	<u>\$ 7,883</u>	<u>\$ 344,329</u>	<u>\$ 106,540</u>	<u>\$ 1,675,458</u>

Liabilities

Account payable		212,545	437,649				652,790
Due to general funds		818	318,534				319,352
Due to federal government	<u>184,507</u>	<u>51,757</u>	<u>-</u>	<u>10</u>	<u>344,329</u>	<u>106,540</u>	<u>687,143</u>
Total liabilities	<u>\$ 184,507</u>	<u>\$ 265,120</u>	<u>\$ 756,183</u>	<u>\$ 10</u>	<u>\$ 344,329</u>	<u>\$ 106,540</u>	<u>\$ 1,659,285</u>

FUND BALANCE

Federal Programs		<u>8,300</u>		<u>7,873</u>			<u>16,173</u>
Total fund balances	<u>-</u>	<u>8,300</u>	<u>-</u>	<u>7,873</u>	<u>-</u>	<u>-</u>	<u>16,173</u>
Total liabilities and fund balance	<u>\$ 184,507</u>	<u>\$ 273,420</u>	<u>\$ 756,183</u>	<u>\$ 7,883</u>	<u>\$ 344,329</u>	<u>\$ 106,540</u>	<u>\$ 1,675,458</u>

**MUNICIPALITY OF PONCE**  
**Combining Statement of Revenue, Expenditure, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2002**

	<u>Home</u>	<u>Ryan White</u>	<u>F.E.M.A.</u>	<u>Program income quality health</u>	<u>Local law</u>	<u>San Anton</u>	<u>Total Nonmajor governmental funds</u>
Federal grant	\$ -	2,183,157					<u>2,183,157</u>
EXPENDITURES	<u>-</u>	<u>2,183,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,183,157</u>

Municipality of Ponce  
 Capital Assets Used in the Operation of Governmental Funds  
 Schedule of Changes By Function and Activity  
 For the fiscal year ended June 30, 2002

Governmental funds capital assets:	2002	2001
Land	\$ 24,439,718	\$ 24,327,718
Buildings	77,599,714	77,546,609
Improvements other than buildings	4,357,261	4,339,196
Machinery and equipment	13,223,402	12,591,524
Infrastructure	43,320,459	42,520,663
Construction in progress	22,822,121	7,611,428
Total governmental funds capital assets	\$ 185,762,675	\$ 168,937,138
Investment in governmental funds capital assets by sources		
General fund	\$ 65,833,560	\$ 60,008,023
Special revenue fund	72,500,000	72,500,000
Capital projects funds	47,429,115	36,429,115
Donations	0	0
Total governmental funds capital assets	\$ 185,762,675	\$ 168,937,138

## **PART III. STATISTICAL SECTION**

MUNICIPALITY OF PONCE

General Governmental

Revenues by Source<sup>1</sup>

Last Ten Fiscal Years

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Revenues by Sources:										
Property taxes	\$ 43,025,904	\$ 39,249,194	\$ 37,931,306	\$ 34,482,178	\$ 35,988,513	\$ 34,343,273	\$ 34,007,003	\$ 36,156,874	\$ 32,401,543	\$ 25,486,486
Sale of property tax collection rights	-	-	-	6,963,764	-	-	-	-	-	-
Municipal license taxes	16,927,289	17,207,104	14,629,789	14,712,311	13,368,317	12,266,161	11,630,296	11,014,586	7,402,057	7,205,700
Royalties and others	1,816,746	1,836,061	2,270,209	2,611,715	1,691,365	1,608,064	1,449,478	-	-	-
Licenses and permits	3,284,751	2,303,993	3,794,226	2,922,294	3,066,209	2,349,751	2,425,462	679,398	526,013	647,431
Changes for services and rent	563,349	254,921	337,499	311,889	435,124	380,742	426,547	411,650	195,191	236,336
Intergovernmental:										
Federal	42,450,395	42,903,341	37,247,396	33,844,882	41,148,100	40,235,834	37,169,071	33,842,656	31,812,543	33,388,257
State contributions	9,141,848	7,479,839	5,893,338	9,436,035	9,526,562	10,284,877	8,375,676	14,152,157	8,503,021	19,010,479
Interest, fines and penalties	2,189,785	1,607,403	1,846,508	1,201,096	1,522,108	1,029,154	824,931	760,390	427,321	667,003
Miscellaneous	16,193,370	1,183,293	1,277,055	881,891	967,384	855,628	197,308	1,337,323	788,978	1,970,134
Total	\$ 135,593,437	\$ 114,025,149	\$ 105,227,326	\$ 107,368,055	\$ 107,713,682	\$ 103,353,484	\$ 96,505,772	\$ 98,355,034	\$ 82,056,667	\$ 88,611,826

<sup>1</sup>Includes General, Special Revenue, Debt Service and Capital Projects funds.

# MUNICIPALITY OF PONCE

## General Governmental Expenditures by Function<sup>1</sup>

Last Ten Fiscal Years

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
General government	\$ 29,712,061	\$ 23,850,734	\$ 25,486,551	\$ 28,112,874	\$ 24,512,771	\$ 24,131,708	\$ 27,709,822	\$ 22,826,460	\$ 22,237,695	\$ 22,862,784
Public safety	8,979,368	7,589,077	6,982,414	6,413,669	6,671,964	6,227,773	4,861,324	4,170,426	3,436,412	3,660,208
Public work	16,490,889	14,355,530	13,147,209	15,365,484	14,624,163	16,207,159	22,692,792	14,982,726	9,439,458	16,026,679
Culture and recreation	7,510,837	6,710,750	6,339,466	6,153,458	6,591,802	7,206,742	5,712,616	3,775,274	3,163,318	4,795,706
Health and welfare	25,970,381	33,034,986	30,662,745	25,652,794	27,351,346	28,000,998	26,363,720	23,591,668	20,684,411	20,289,454
Urban development	16,648,032	5,798,916	4,605,672	3,811,503	11,547,293	12,724,744	11,492,981	18,410,291	12,223,450	13,154,184
Legal service	852,146	750,619	729,740	656,729	768,987	757,750	999,848	640,904	525,401	790,663
Education	10,651,201	9,557,394	7,186,080	6,860,854	6,326,416	5,176,759	4,960,151	5,529,230	4,840,674	6,534,644
Capital outlays	11,478,985	8,057,043	4,691,037	1,568,265	3,586,421	2,381,098	1,358,908	1,898,839	5,727,501	14,009,900
Debt service:										
Principal	9,270,558	11,127,423	10,493,729	13,488,587	11,901,156	9,337,782	4,325,740	14,563,796	2,925,000	10,706,885
Interest and other	5,889,765	6,951,417	7,363,307	8,253,395	8,243,261	7,330,738	7,199,025	6,374,151	2,248,135	1,710,179
<b>Total expenditure</b>	<b>\$ 143,454,223</b>	<b>\$ 127,783,889</b>	<b>\$ 117,687,950</b>	<b>\$ 116,337,612</b>	<b>\$ 122,125,580</b>	<b>\$ 119,483,251</b>	<b>\$ 117,676,927</b>	<b>\$ 116,763,765</b>	<b>\$ 87,451,455</b>	<b>\$ 114,541,286</b>

<sup>1</sup>Includes General, Special Revenue, Debt Service and Capital Projects funds.

## MUNICIPALITY OF PONCE

### Assessed Value of Taxable Real and Personal Property<sup>1</sup>

Last Five Years

<b><u>Fiscal</u></b> <b><u>Year</u></b>	<b><u>Gross</u></b> <b><u>Valuation</u></b>	<b><u>Exempt</u></b> <b><u>Value</u></b>	<b><u>Exonerated</u></b> <b><u>Value</u></b>	<b><u>Net</u></b> <b><u>Assessed</u></b> <b><u>Value</u></b>
2002	\$ 1,018,613,365	\$ 192,390,599	\$ 248,432,894	\$ 577,789,872
2001	978,908,362	185,078,640	237,675,408	556,154,314
2000	973,876,077	208,745,237	240,065,346	525,065,494
1999	966,180,410	220,666,139	243,445,394	502,068,877
1998	951,365,226	214,428,035	239,388,477	497,548,714

Source: Municipal Revenue Collection Center.

<sup>1</sup> Information prior to 1998 is unavailable.

## MUNICIPALITY OF PONCE

### Real and Personal Property Tax Levies and Collections<sup>1</sup>

Last Five Fiscal Years

<b><u>Fiscal Year</u></b>	<b><u>Total Current Year Tax Levy</u></b>	<b><u>Current Tax Collected</u></b>	<b><u>Percent of Levy Collected</u></b>	<b><u>Delinquent Tax Collected</u></b>	<b><u>Total Tax Collected</u></b>	<b><u>Total Tax Collected as % of Current Levy</u></b>
2002	\$ 42,247,108	\$ 32,926,019	78%	\$ 3,350,277	\$ 36,276,296	86%
2001	40,726,482	31,744,908	78%	3,458,559	35,203,467	86%
2000	38,247,404	33,614,781	88%	3,363,026	36,977,807	97%
1999	36,618,181	29,287,336	80%	3,384,112	32,671,447	89%
1998	35,594,733	28,673,887	81%	5,281,537	33,955,424	95%

Source: Municipal Revenue Collection Center.

<sup>1</sup> Information prior to 1998 is unavailable.

## MUNICIPALITY OF PONCE

### Property Tax Rates

#### Last Ten Fiscal Years

#### Real Property

<u>Fiscal Year</u>	<u>General Purpose</u> <sup>1</sup>	<u>Bond Redemption</u> <sup>2</sup>	<u>Commonwealth of Puerto Rico</u> <sup>3</sup>	<u>Discount</u> <sup>a</sup>	<u>Total</u>
2002	4.00%	1.50%	1.03%	0.20%	6.73%
2001	4.00%	1.50%	1.03%	0.20%	6.73%
2000	4.00%	1.50%	1.03%	0.20%	6.73%
1999	4.00%	1.50%	1.03%	0.20%	6.73%
1998	4.00%	1.50%	1.03%	0.20%	6.73%
1997	4.00%	1.25%	1.03%	0.20%	6.48%
1996	4.00%	1.25%	1.03%	0.20%	6.48%
1995	4.00%	1.25%	1.03%	0.20%	6.48%
1994	4.00%	1.25%	1.03%	0.20%	6.48%
1993	4.00%	1.25%	1.03%	0.20%	6.48%

<sup>1</sup>Represents the Municipality's basic property tax rate which is appropriated for general purposes.

<sup>2</sup>Represents the ad valorem tax restricted for Debt Service.

<sup>3</sup>Represents a percentage retained by Commonwealth of Puerto Rico.

<sup>a</sup>Represents amount by the Commonwealth of Puerto Rico.

# MUNICIPALITY OF PONCE

## Property Tax Rates

### Last Ten Fiscal Years

#### Personal Property

<u>Fiscal Year</u>	<u>General Purpose</u> <sup>1</sup>	<u>Bond Redemption</u> <sup>2</sup>	<u>Commonwealth of Puerto Rico</u> <sup>3</sup>	<u>Discount</u> <sup>a</sup>	<u>Total</u>
2002	6.00%	1.50%	1.03%	0.20%	8.73%
2001	6.00%	1.50%	1.03%	0.20%	8.73%
2000	6.00%	1.50%	1.03%	0.20%	8.73%
1999	6.00%	1.50%	1.03%	0.20%	8.73%
1998	6.00%	1.50%	1.03%	0.20%	8.73%
1997	6.00%	1.25%	1.03%	0.20%	8.48%
1996	6.00%	1.25%	1.03%	0.20%	8.48%
1995	6.00%	1.25%	1.03%	0.20%	8.48%
1994	6.00%	1.25%	1.03%	0.20%	8.48%
1993	6.00%	1.25%	1.03%	0.20%	8.48%

<sup>1</sup>Represents the Municipality's basic property tax rate which is appropriated for general purposes.

<sup>2</sup>Represents the ad valorem tax restricted for Debt Service.

<sup>3</sup>Represents a percentage retained by Commonwealth of Puerto Rico.

<sup>a</sup>Represents amount by the Commonwealth of Puerto Rico.

## MUNICIPALITY OF PONCE

### Computation of Legal Debt Margin

June 30,2002  
(in thousands of dollars)

Assessed value of property located within the Municipality of Ponce	<u>\$ 826,222</u>
Legal debt limit- 10% of the total assessed value of property located within The Municipality of Ponce	\$ 82,622
Total general obligation bond outstanding applicable to legal debt limit	<u>(75,345)</u>
Available legal margin	<u>\$ 7,277</u>
Ratio of available legal debt margin to legal debt limit	<u>8.81%</u>

Sources: Assessed property value was provided by the Municipal Revenue Collection Center.

## MUNICIPALITY OF PONCE

Ratio of Net General Bonded Debt  
To Assessed Value and Net Bonded Debt per Capita

Last Ten Fiscal Years

(In thousands of dollars)

<b>Fiscal Year</b>	<b>Population</b>	<b>Assessed Value</b>	<b>Gross Bonded Debt</b>	<b>Less Debt Service Fund Balance</b>	<b>Net Bonded Debt</b>	<b>Ratio of Net Bonded Debt to Assessed Value</b>	<b>Net Bonded Debt per Capital</b>
2002	187,935	\$ 826,222	\$ 154,864	\$ 8,663	\$ 146,201	0.18	\$ 0.778
2001	186,925	838,689	195,812	6,918	188,894	0.23	1.011
2000	186,475	765,130	174,760	6,788	167,972	0.22	0.901
1999	193,640	745,514	167,634	5,926	161,708	0.22	0.835
1998	191,469	725,285	135,085	8,314	126,771	0.17	0.662
1997	189,900	725,703	130,528	9,212	121,316	0.17	0.639
1996	189,988	601,479	121,640	9,737	111,903	0.19	0.589
1995	188,722	690,167	125,972	7,006	118,966	0.17	0.630
1994	193,069	<sup>a</sup>	119,430	8,291	111,139	<sup>a</sup>	0.576
1993	193,053	<sup>a</sup>	102,261	7,595	94,666	<sup>a</sup>	0.490

Source: <sup>1</sup> U.S. Bureau of the Census.

<sup>2</sup> Municipal Revenue Collection Center.

<sup>a</sup> Information is unavailable.

# MUNICIPALITY OF PONCE

## Ratio of Annual Debt Service for General Bonded Debt to Total General Governmental Expenditures

### Last Ten Fiscal Years (in thousands of dollar)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Debt service:										
Principal	\$ 5,360	\$ 4,950	\$ 2,245	\$ 6,685	\$ 5,130	5,045	2,245	2,115	2,925	\$ 10,706
Interest	4,807	3,608	2,766	2,940	3,373	2,724	2,766	2,743	2,248	1,710
Total debt service	10,167	8,558	5,011	9,625	8,503	7,769	5,011	4,858	5,173	12,416
Total general expenditures <sup>1</sup>	\$ 143,454	\$ 127,783	\$ 117,687	\$ 116,337	\$ 122,125	119,483	117,676	116,763	87,451	\$ 114,541
Debt services to general expenditures (percentage)	7.09%	6.70%	4.26%	8.27%	6.96%	6.50%	4.26%	4.16%	5.92%	10.84%

<sup>1</sup> Includes General, Special Revenue, Debt Service and Capital Projects funds.

## MUNICIPALITY OF PONCE

Construction and Bank Deposits  
For the Last Ten Fiscal Years

<u>Calendar Year</u>	<u>Commercial Construction</u>		<u>Residential Construction</u>		<u>Bank Deposits</u>
	<u>Square Feet of Site Approved</u>	<u>Value</u>	<u>Square Feet of Site Approved</u>	<u>Value</u>	
2002	1,397,322	\$ 19,288,812	698,171	\$ 32,542,838	627,548,067
2001	301,088	17,907,729	1,607,473	11,456,040	574,313,637
2000	42,551	43,807,905	133,572	14,634,427	559,161,303
1999	63,088	25,847,625	36,010	10,229,560	523,190,402
1998	75,081	21,490,692	58,863	9,181,875	451,025,760
1997	389,536	21,190,842	52,231	19,546,431	399,266,148
1996	380,290	11,648,366	52,709	10,042,513	356,247,625
1995	37,772	11,638,545	97,841	3,402,791	255,944,779
1994	189,551	1,826,922	29,089	5,280,280	208,237,779
1993	32,805	6,871,250	654,702	9,922,925	179,351,393

Sources: Puerto Rico Planning Board for the years 1993 to 1997.

Municipal license Tax and Permits offices of the Municipality  
of Ponce for the years 1998 to 2002.

## **COMMENTS RELATIVE TO STASTICAL SECTION**

The following statistical tables that are recommended for inclusion by the Governmental Accounting Standard Board are not included for the reasons stated bellow:

- Assessed and Estimated Actual Value of Taxable Property-Last Ten fiscal Years- Municipality has not estimated the actual value of real property since 1957.
- Special Assessment Collections-Last Ten Fiscal Years-Municipality has had no special assessment for the past ten years.
- Principal Taxpayers-This information is confidential and protected by law.

# MUNICIPALITY OF PONCE

## Demographic Statistics

For the Last Ten Fiscal Years

<b><u>Fiscal Year</u></b>	<b><u>Population</u></b>	<b><u>Employment</u></b>	<b><u>Unemployment Rate</u></b>
2002	187,935	56,355	12.30%
2001	186,925	53,212	12.30%
2000	186,475	53,336	12.30%
1999	193,640	51,683	13.00%
1998	191,469	50,856	14.97%
1997	189,900	50,835	16.53%
1996	189,988	50,754	16.45%
1995	188,722	49,736	15.99%
1994	193,069	48,222	16.50%
1993	193,053	48,123	19.63%

Sources: U.S. Bureau of the Census.

## Population Density

	<b><u>Square Miles</u></b>	<b><u>Population per Square Mile</u></b>
<b>Ponce</b>	187.94	992.20

## Population Age Distribution as of 2000 Census

<b><u>0-14</u></b>	<b><u>15-24</u></b>	<b><u>25-44</u></b>	<b><u>45-64</u></b>	<b><u>65+</u></b>
45,203	32,228	48,225	39,169	21,650

Sources: U.S. Bureau of the Census.





































