

Municipality of Ponce
Comprehensive Annual Financial Report
June 30, 2004

Prepared by Municipality of Ponce

Hon. Delis Castillo de Santiago
Mayor

Carlos Jirau
City Manager

Myrna Ortiz
Finance Director

December 10, 2004

MUNICIPALITY OF PONCE
Comprehensive Annual Financial Report

June 30, 2004

TABLE OF CONTENTS

	<u>Pages</u>
Part I. Introductory Section	
Transmittal Letter	2-6
GFOA Certificate of Achievement	7
Organization Chart	8
List of Elected and Appointed Official	9
Part II. Financial Section	
Independent Auditors' Report	11-12
Management's Discussion and Analysis	13-22
Basic Financial Statements:	
Statement of Net Assets	23-24
Statement of Activities	25
Fund Financial Statements:	
Balance Sheet-Governmental Funds	26-27
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	28
Statement of Revenues, Expenditures and Changes in Fund Balances	29-30
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	31

(Continued)

MUNICIPALITY OF PONCE
Comprehensive Annual Financial Report

June 30, 2004

TABLE OF CONTENTS

	<u>Pages</u>
Statement of Revenues and Expenditures – Budget and Actual -General and Debt Service Funds	32
Notes to Basic Financial Statements	33-67
Combining Individual Funds Statements:	
General Fund:	
Comparative Balance Sheets	69
Comparative Statements of Revenues, Expenditures and Changes in Fund Balance	70
Debt Service Fund:	
Statement pf Revenue and Expenditure-Budget and Actual	71
Nonmajor Governmental Funds:	
Combining Balance Sheet-Nonmajor Governmental Funds	73
Combining Statements of Revenues, Expenditures and Changes In Fund Balance-Nonmajor Governmental Funds	74
Capital Assets Used in the Operations of Governmental Funds-Schedules of Changes by Function and Activity	75
Part III. Statistical Section	
General Governmental Revenues by Source	77
General Governmental Expenditures by Function	78
Assessed Value of Taxable Real And Personal Property	79
Real and Personal Property Tax Levies and Collections	80

(Continued)

MUNICIPALITY OF PONCE

Comprehensive Annual Financial Report

June 30, 2004

TABLE OF CONTENTS

	<u>Pages</u>
Property Tax Rates-Real Property	81
Property Tax Rates-Personal Property	82
Computation of Legal debt Margin	83
Ratio of General Bonded Debt to Assessed Value and Net Bonded Debt per Capita	84
Ratio of General Bonded Debt to Assessed Value and Net Bonded Debt per governmental Expenditures	85
Construction and Bank Deposits for the Last Ten Fiscal Years	86
Demographic Statistics for the Last Ten Years	87
Comments relative to Statistical Section	88

Part I. Introductory Section

December 20, 2004

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, 2004.

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, 2004, 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, 2004 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 191,299. 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.

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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 51,805 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 2003-2004 the gross revenues of the Port of Ponce was \$4.3 millions. During the year ended June 30, 2004 the Port of Ponce manage 3,405 containers and 515,511 tons. The export and imports decrease a 96 % 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 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.

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

(Continued)

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>

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 to Recreational Park	2,500,000
2. Dredge in the Port	30,000,000
3. Purchase of equipments and improvements to pier 7 & 8	50,000,000
5. Various Basketball field	5,000,000
6. Extension to Lineal Park	<u>5,000,000</u>
Total	<u>\$ 92,500,000</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, 2004 was \$436,573.

(Continued)

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.

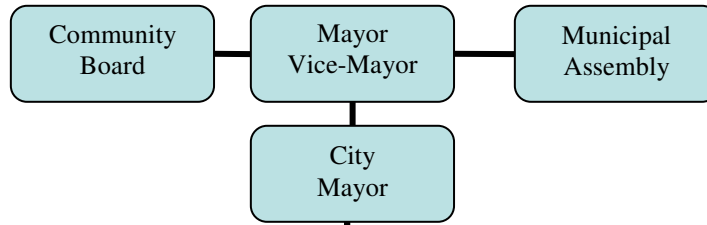
In addition, the Municipality of Ponce received an award from Commonwealth of Puerto Rico for the performance of the standard with the Work Investment Act program.

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.

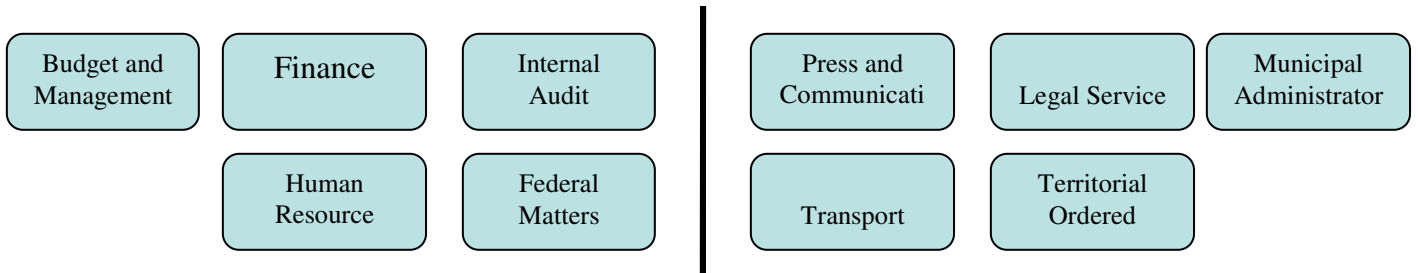
Respectfully submitted,

Mrs. Myrna Ortiz
Finance Director

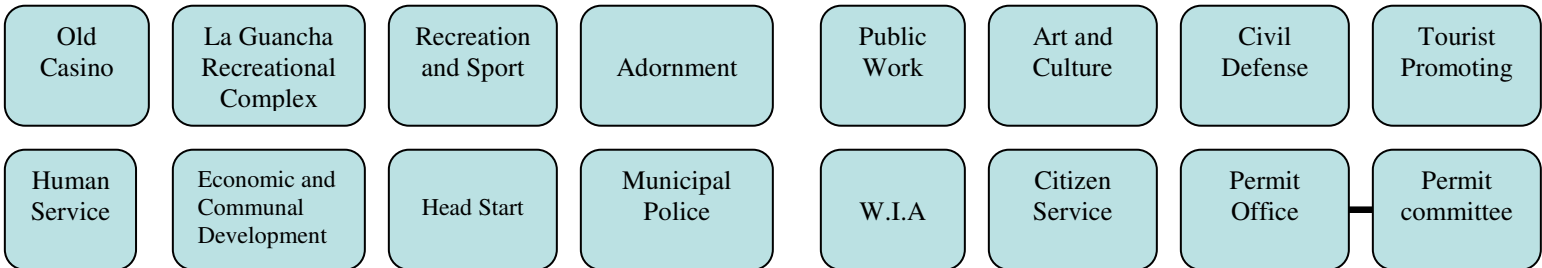
Municipality of Ponce Organization Chart



OFFICES OF PROFESSIONAL ADVICE



OPERATIONAL DEPARTMENTS



Municipality of Ponce

List of Elected and Appointed Officials

Elected Officials

Mayor

Delis Castillo de Santiago

Legislative Municipality Assembly

Luis A. Morales, President	Carlos L. Baéz Muñiz
Enrique A. Vicéns, VicePresident	Freddie Martínez Sotomayor
Pedro Pacheco Figueroa	Juan H. Cintrón García
Enrique Amy Fernández	Elioscar Pérez Ramírez
Waldemar Vélez Silvagnoli, Majority Spokesperson	Santos Silva Ojeda
René Garrastazú	María Cristina Martínez Torres
Daisy Silvagnoli Maldonado	Ruth García Ortíz
Simona Santiago Ruiz	Nilda González González

Appointed Officials

Carlos Jirau	City Manager
Mirna Ortíz	Office of Finance
Camille Rivera	Office of Budget
Lilliam Santiago	Office of Internal Audit
Mabel Pola	Office of Press
Patricia Castaing	Office of Legal Affair
Vilma Flores	Office of Municipal Secretary
Ivonne Laborde	Human Resources
Myrna Vale	Department of Economic Development
Wilfredo Morales	Department of Ornament
Migdalia Canevaro	Old Casino
José Pacheco	Office of Recreation Complex
Roberto Velázquez	Department of Sport and Recreation
Pedro Hernández	Department
Paul Fourquet	Civil Defense
Vangie Rivera	Turist development
José Medina Orta	Human Services
Maria De los Angeles Torres	Head Start department
Tnta. Gomercindo Torres	Commissioner of Police and Public Safety
Ramón Anglada	Work Investment Act Department
Wanda Rodríguez Feria	Citizens Services
Juan Carlos Santiago	Historic Center
Edgar Seda	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 governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Ponce, as of and for the year ended June 30, 2004, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express 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 financial 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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the Municipality of Ponce as of June 30, 2004, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated December 10, 2004, on our consideration of internal control over financial reporting and our test of our compliance with certain provisions of the laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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 accounting principles generally accepted in the United States of America. We and the other auditors 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
December 10, 2004

The stamp 2000964 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, 2004. 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 capital assets increase as a result of this year's operations. Capital assets as of June 30, 2004 are \$179.5 million, as compared to \$ 163.7 million for the year ended June 30, 2003, for a 9.65% of increase.
- During the year, the Municipality had revenues of \$ 96.6 million in the General Fund of a total revenues restricted and unrestricted of \$145.6 million.
- The investment in capital assets for this year is \$ 38.9 million.
- Loans principal payments were \$46.8 million. During the year ended June 30, 2004, the Municipality issued \$64.7 millions on bonds payable.

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

MUNICIPALITY OF PONCE, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004

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 19. 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 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

MUNICIPALITY OF PONCE, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004

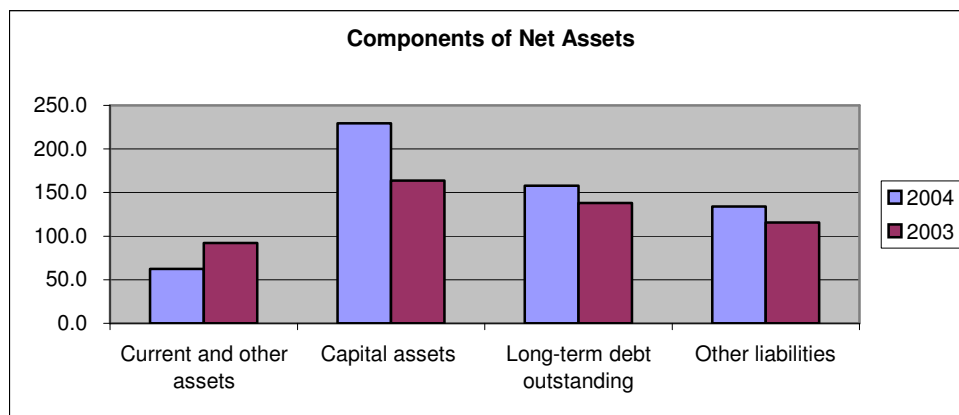
governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation on pages 28 and 31 of this report.

THE MUNICIPALITY AS A WHOLE

The Municipality's *combined* net assets decreases from a year ago, from \$2.25 million to \$(9.71) 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	
		2004	2003
Current and other assets		\$62.48	\$92.04
Capital assets		229.26	163.74
Total assets		291.74	255.78
Long-term debt outstanding		(157.86)	(137.93)
other liabilities		(133.88)	(115.60)
Total liabilities		(291.74)	(253.93)
Net assets:			
Invested in capital assets, net of related debt		29.49	54.20
Restricted for:			
Debt services		9.95	7.02
Capital project		63.28	55.71
Federal programs			
Unrestricted		(112.43)	(114.68)
Net Assets		\$ (9.71)	\$ 2.25



MUNICIPALITY OF PONCE, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004

Net assets of the Municipality's governmental activities decreased by \$7.46 million ((\$2.25 million compared to minus \$9.71 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 \$(114.68) million at June 30, 2003 to a \$(112.43) million at June 30, 2004.

Governmental Activities

Revenues for the Municipality's governmental activities increased by 10% (\$7.9 million), while total expenses increased by 6% (7.2 millions). The Municipality of Ponce took the following major actions this year to improve the financial position:

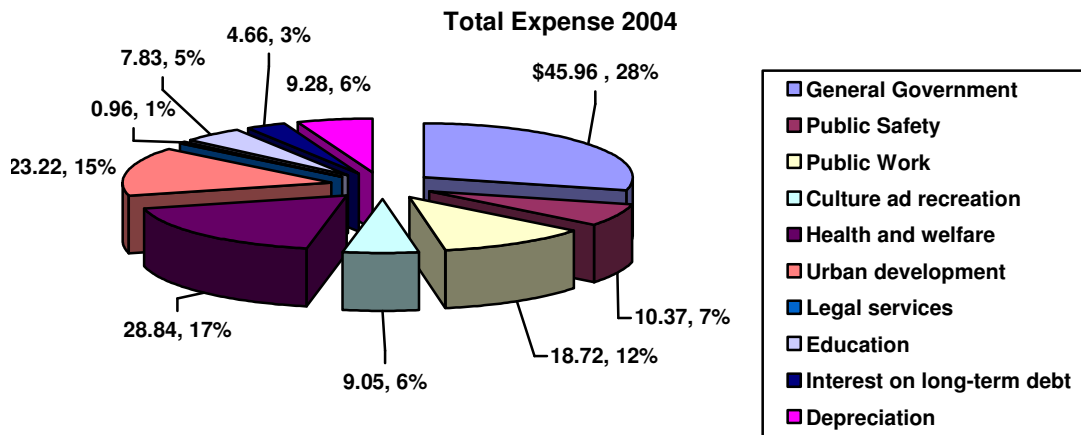
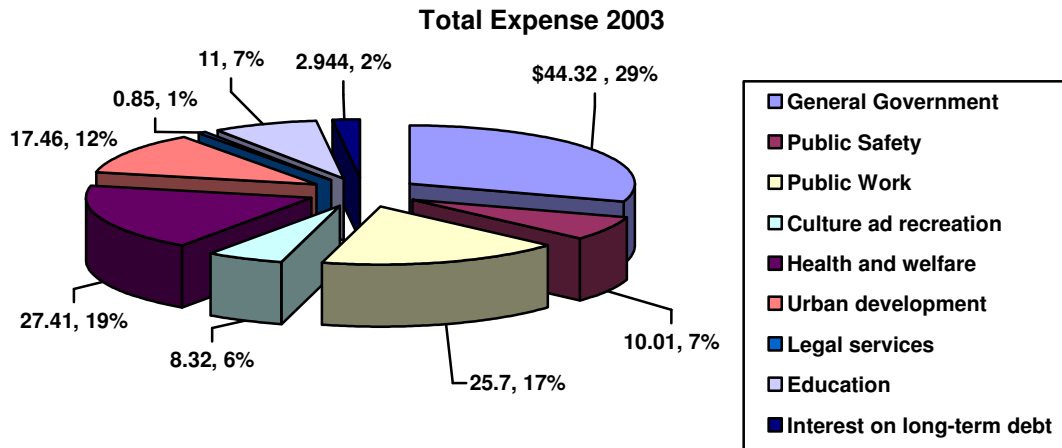
- The Mayor of the Municipality of Ponce made various committees to supervise the operations of all department of the Municipality. The component of that committee were meeting at least one time per week. In those meetings the Mayor received different reports like a cash-flow, budget vs. actual, aging 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.
- 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.

Expenses during the fiscal year ended June 30, 2004 was substantially related to the following:

Table 2
Governmental Activities
(in Millions)

	Total expenses	
	2004	2003
General Government	\$45.96	\$44.32
Public Safety	10.37	10.01
Public Work	18.72	25.70
Culture and recreation	9.05	8.32
Health and welfare	28.84	27.41
Urban Development	23.22	17.46
Legal Service	.96	.85
Education	7.83	11.00
Interest on long term debt	4.66	2.944
Depreciation	9.28	0
Totals	\$158.90	\$148.08

MUNICIPALITY OF PONCE, PUERTO RICO
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEAR ENDED JUNE 30, 2004



- Technical assistance required from Central Government Administration related to soil studies as part of the Las Americas Port.
- Legal and accounting assistance required in various cases against Central Government Agencies.

The cost of all governmental activities this year was \$158.90 million compared to \$148.04 million last year. Table 2 presents the cost of each of the Municipality of Ponce's largest programs.

The major governmental revenue sources are property taxes, municipal license taxes, grant and contributions not restricted, which in total represent \$68.92 (94%) and \$64.08 (77%) of all revenues in 2004 and 2003, respectively. Changes within these four sources of revenues were an increase \$4.84 million.

MUNICIPALITY OF PONCE, PUERTO RICO
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEAR ENDED JUNE 30, 2004

Table 3
Governmental Activities
 (in Millions)

	General Revenues by major sources	
	2004	2003
Property taxes	\$41.02	\$40.37
Municipal license taxes	17.70	17.49
Grants and contributions	10.20	6.22
Totals	\$68.92	\$64.08

General Revenues

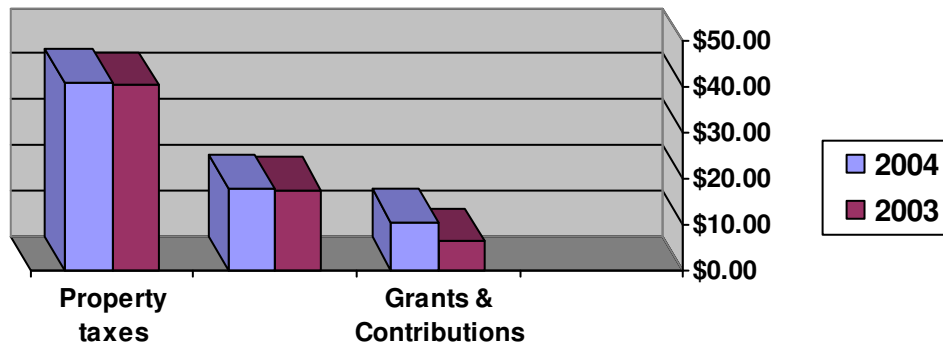
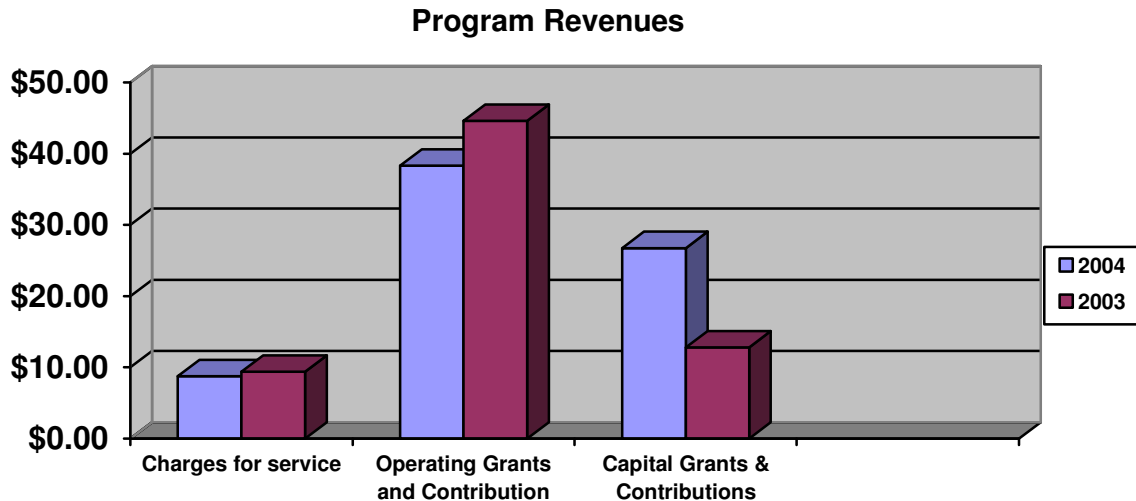


Table 4
Governmental Activities
 (in Millions)

	Program Revenues by major sources	
	2004	2003
Charges for service	\$8.76	\$9.39
Operating Grants and Contribution	38.32	44.61
Capital Grants and Contributions	26.75	12.81
Totals	\$73.83	\$66.81

MUNICIPALITY OF PONCE, PUERTO RICO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004



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 \$ 46.1 million, which is higher than last year total of \$41.2 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.
- This year the Municipality an increase the property tax due to the effort of a team of the Municipal Property Tax Office.
- The Central Government paid over \$5 million for special communities and the rehabilitation of various low income families sectors.

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 2002).

MUNICIPALITY OF PONCE, PUERTO RICO
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEAR ENDED JUNE 30, 2004

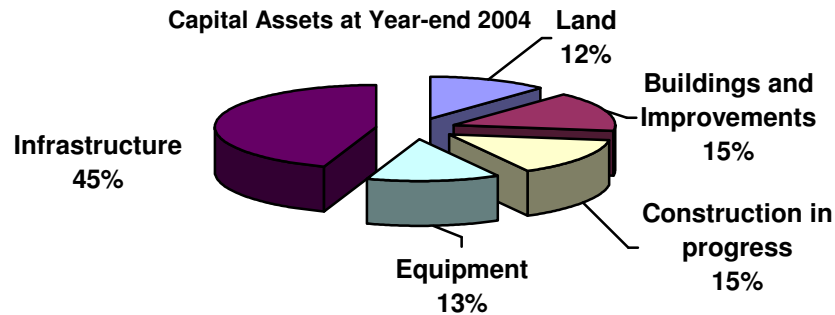
CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

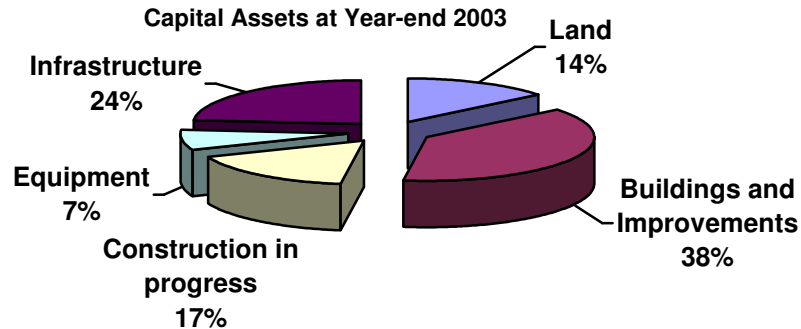
As of June 30, 2004, the Municipality of Ponce had \$ 232.18 million invested in a broad range of capital assets, including buildings, parks, roads, bridges, and equipment. (See Table 5). This amount represents a net increase (including additions and deductions) of just over under \$27.93 million, or 14 percent, over last year. In this table you see few changes in amount compared to last year due to reclassifications of real property to proper division.

Table 5
Capital Assets at Year-end
(At cost, in Thousands)

	<i>Governmental Activities</i>	
	2004	2003
Land	\$26.73	\$ 28.80
Buildings and Improvements	33.97	77.82
Construction in progress	33.21	34.24
Equipment	29.91	15.31
Infrastructure	100.28	48.08
Totals	<u>\$ 224.10</u>	<u>\$ 204.25</u>



MUNICIPALITY OF PONCE, PUERTO RICO
 MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEAR ENDED JUNE 30, 2004



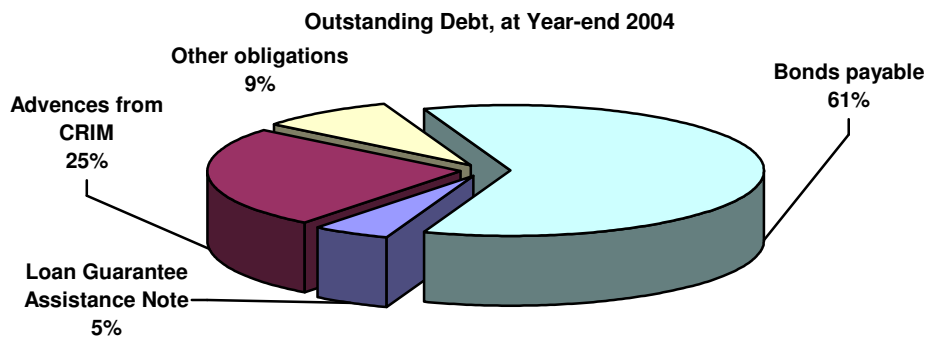
The City's fiscal-year 2004 capital budget call for it to spend another \$20.7 million for capital projects. The Municipality has plans to issue additional debt to finance this project. More detailed information about the Municipality's capital assets is presented in Note 10 to the financial statements.

Debt

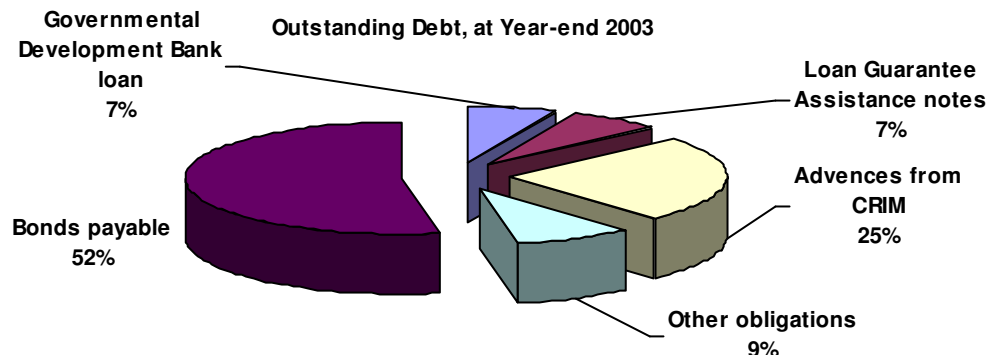
At year-end, the Municipality had \$ 238.80 million in bonds and notes outstanding versus \$ 207.60 million last year, a decrease of 1.2 percent, as shown in Table 6.

Table 6
Outstanding Debt, at Year-End
(in Thousands)

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Bonds payable	\$146.1	\$109.5
Governmental Development Bank loan	0.0	14.1
Loan Guarantee Assistance notes	11.7	14.3
Advances from CRIM	60.4	51.2
Other obligations	20.6	18.5
Totals	<u>\$238.8</u>	<u>\$207.6</u>



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



New bonds in the amount of \$64.7 million were issued to finance improvements to few buildings, recreational facilities, purchase of equipment and vehicle, construction of new infrastructure and to refinance old debt. 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 2004 budget. Unemployment in the Municipality now stands at 11.6 percent.

Amounts available for appropriations in the General Fund for the fiscal year 2005 are \$80.8 million, an decrease of 11 percent under the final 2004 budget of \$91.3 million. In overall the consolidated budget for the fiscal year 2004 is \$140.2 million, an increase of 3.9 percent over the 2004 budget of \$134.9 million. Construction excise taxes are expected to increase to \$9.3 million in 2005 from \$8.7 million in 2004, 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 \$8.9 million, under \$0.26 million from fiscal year 2004.

If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of 2005.

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, 2004**

Assets	Governmental Activities	Component Unit	
		CODEPCOVI	Port of Ponce
Cash (Note 2)	\$ 5,947,671	\$ 212,621	\$3,093,582
Account receivable:			
Municipal license taxes (Note 7)	36,128		
Interest	82,611		
Other		50,129	224,438
Due from other agencies (Note 9)	2,887,674	32,500	
Other assests		54,108	100,758
Restricted assets:			
Cash and cash equivalent (Note 2)	30,731,454		
Cash with fiscal agent (Note 2)	43,251,889		
Cash held in escrow account for landfill closure postclosure care costs (Note 2 and 19)	3,407,084		
Investments (Note 2 and 5)	16,200,000		
Real estate projects under construction		5,850,056	
Capital assets: (Note 10)			
Non-depreciable	59,940,958		
Depresiable,net	119,553,839		
Total assets	<u>\$282,039,308</u>	<u>\$6,199,414</u>	<u>\$3,418,778</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
STATEMENT OF NET ASSETS (CONTINUED)
JUNE 30, 2004**

<u>Liabilities and Net Assets</u>	Governmental Activities	Component Unit	
		CODEPCOVI	Port of Ponce
Liabilities			
Accounts payable and accrued liabilities (Note 11)	\$ 26,110,167	\$ 5,966,227	\$ 486,310
Due to other agencies (Note 11)	3,953,334		
Deferred Revenues: (Note 13)			
Municipal license tax	14,931,717		
Federal Government	5,689,336		
Accrued interest	2,143,162		
Noncurrent liabilities (Note 14):			
Due within one year	9,658,989	1,928,098	
Due in more than one year	229,258,348		
Total liabilities	291,745,053	7,894,325	486,310
Net Assets			
Investment in capital assets, net of related debt	29,494,797	4,846	
Restricted for:			
Debt service	9,954,547		
Capital projects	63,278,047		
Unrestricted	(112,433,136)	(1,699,757)	2,932,468
Total net assets	(9,705,745)	(1,699,757)	2,932,468
Total liabilities and net assets	\$ 282,039,308	\$ 6,199,414	\$ 3,418,778

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
STATEMENT OF ACTIVITIES
JUNE 30, 2004**

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
Primary government:							
General government	\$ 45,962,161	\$ 6,961,545	\$ -	\$ -	\$ (39,000,616)		
Public safety	10,373,984				(10,373,984)		
Public works	18,719,320	1,804,033			(16,915,287)		
Culture and recreation	9,047,549				(9,047,549)		
Health and welfare	28,843,166		15,287,901		(13,555,265)		
Urban development	23,224,080		15,201,730	26,753,807	18,731,457		
Legal services	957,169				(957,169)		
Education	7,832,909		7,832,909				
Depreciation	9,281,833				(9,281,833)		
Interest on long-term debt	4,660,963				(4,660,963)		
Total primary government	<u>\$ 158,903,134</u>	<u>\$ 8,765,578</u>	<u>\$ 38,322,540</u>	<u>\$ 26,753,807</u>	<u>(85,061,209)</u>		
Component units:							
CODEPCOVI	\$ 4,320,117	2,770,720	390,000			(1,159,397)	
Port of Ponce	1,635,818	1,624,743					(11,075)
Total component units	<u>\$ 5,955,935</u>	<u>\$ 4,395,463</u>	<u>\$ 390,000</u>	<u>\$ -</u>	<u>-</u>	<u>(1,159,397)</u>	<u>(11,075)</u>
General revenues:							
Property taxes (Note 6)					41,021,828		
Municipal license tax (Note 7)					17,707,927		
Grants and contributions not restricted to specific programs					10,198,600		
Interest income					373,118	352	
Miscellaneous					2,418,676	1,431	
Gain on disposal of assets					1,382,704		
Total general revenues					<u>73,102,853</u>	<u>1,783</u>	<u>-</u>
Change in net assets					(11,958,356)	(1,157,614)	(11,075)
Net assets at the beginning of the year					<u>2,252,611</u>	<u>(537,297)</u>	<u>2,943,543</u>
Net assets at the end of the year					<u>\$(9,705,745)</u>	<u>\$(1,694,911)</u>	<u>\$2,932,468</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, 2004

<u>Assets</u>	<u>General</u>	<u>HUD Programs</u>	<u>Workforce Investment Act Program</u>	<u>Health and Human Services Programs</u>	<u>Debt Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Note 2)	\$ 1,766,348	\$ 3,499,649	\$ 63,332	\$ 111,655	-	\$ 506,687	\$ 5,947,671
Account receivable:							
Municipal license taxes (Note 7)	36,128						36,128
Due from other agencies (Note 9)	342,776	213,781	503,594	553,782	403,058	870,683	2,887,674
Interest	73,081				9,530		82,611
Advances to other funds (Note 8)	275,556	2,096,088	22	1,768			2,373,434
Restricted cash:							
Cash and Cash equivalent (Note 2)	30,731,454						30,731,454
Cash with fiscal agent (Note 2)	28,046,818				15,205,071		43,251,889
Investment (Note 2 and 5) Cash in escrow account for landfill closure postclosure care cost (Note 2 and 19)	16,200,000						16,200,000
	<u>3,407,084</u>						<u>3,407,084</u>
 Total assets	 <u>\$ 80,879,245</u>	 <u>\$ 5,809,518</u>	 <u>\$ 566,948</u>	 <u>\$ 667,205</u>	 <u>\$ 15,617,659</u>	 <u>\$ 1,377,370</u>	 <u>\$ 104,917,945</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
BALANCE SHEET-GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2004

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>HUD Programs</u>	<u>Workforce Investment Act Program</u>	<u>Health and Human Services Programs</u>	<u>Debt Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities							
Accounts payable and accrued liabilities (Note 11)	\$ 23,758,594	\$ 453,408	\$ 535,609	\$ 638,290	\$ -	\$ 724,266	\$ 26,110,167
Due to other agencies (Note 11)	3,953,334						3,953,334
Advance from other funds (Note 8)	2,097,823	33,310		45		242,256	2,373,434
General Obligations: (Note 14)							
Bonds					3,935,000		3,935,000
Interest					1,728,112		1,728,112
Deferred Revenues: (Note 13)							
Municipal license tax	14,931,717						14,931,717
Federal Government		5,218,279	31,339	28,870		410,848	5,689,336
Total liabilities	<u>44,741,468</u>	<u>5,704,997</u>	<u>566,948</u>	<u>667,205</u>	<u>5,663,112</u>	<u>1,377,370</u>	<u>58,721,100</u>
Fund Balance							
Reserved for:							
Encumbrances	757,962						757,962
Federal Programs		104,521					104,521
Debt service					9,954,547		9,954,547
Advances	275,556						275,556
Landfill closure and postclosure care costs	3,407,084						3,407,084
Capital projects	63,278,047						63,278,047
Unreserved fund balance	(31,580,872)						(31,580,872)
Total fund balance	<u>36,137,777</u>	<u>104,521</u>	<u>-</u>	<u>-</u>	<u>9,954,547</u>		<u>46,196,845</u>
Total liabilities and fund balance	<u>\$ 80,879,245</u>	<u>\$ 5,809,518</u>	<u>\$ 566,948</u>	<u>\$ 667,205</u>	<u>\$ 15,617,659</u>	<u>\$ 1,377,370</u>	<u>\$104,917,945</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, 2004

Total fund balances - governmental funds	\$46,196,845
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Amounts reported for governmental activities in the statement of net assets are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet 179,494,797

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4) (235,397,387)

Net assets of governmental activities	\$ <u><u>(9,705,745)</u></u>
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The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General	HUD Programs	Workforce Investment Act Program	Health and Human Services Program	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes (Note 6)	\$ 30,445,935	\$ -	\$ -	\$ -	\$10,575,893	\$ -	\$ 41,021,828
Municipal license taxes (Note 7)	17,707,927						17,707,927
Royalties and other	1,804,033						1,804,033
Licenses and permits	5,814,948						5,814,948
Charges for service and rents	1,146,597						1,146,597
Intergovernmental revenues (Note 12):							
Federal grants and contributions		15,201,730	7,832,909	12,386,827		2,901,074	38,322,540
State contributions	36,954,407						36,952,407
Interest, fines, and penalties	276,640				93,478		373,118
Other revenues	2,418,676						2,418,676
Total revenues	<u>96,570,163</u>	<u>15,201,730</u>	<u>7,832,909</u>	<u>12,386,827</u>	<u>10,669,371</u>	<u>2,901,074</u>	<u>145,562,074</u>
EXPENDITURES							
General government	35,145,492						35,145,492
Public safety	10,232,578					141,406	10,373,984
Public works	18,089,619						18,089,619
Culture and recreation	9,047,549						9,047,549
Health and welfare	13,716,671			12,386,827		2,739,668	28,843,166
Urban development	-	15,211,858				20,000	15,231,858
Legal services	957,169						957,169
Education	-		7,832,909				7,832,909
Capital outlays	32,878,321						32,878,321
Debt service:							
Principal	2,652,843				3,935,000		6,587,843
Interest and other	961,896				3,699,067		4,660,963
Total expenditures	<u>123,682,138</u>	<u>15,211,858</u>	<u>7,832,909</u>	<u>12,386,827</u>	<u>7,634,067</u>	<u>2,901,074</u>	<u>169,648,873</u>
Excess(deficiency) of revenues over expenditures	<u>(27,111,975)</u>	<u>(10,128)</u>	<u>-</u>	<u>-</u>	<u>3,035,304</u>	<u>-</u>	<u>(24,086,799)</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, 2004**

OTHER FINANCING SOURCES (USES)

Proceeds of refunding bonds	\$23,909,623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,909,623
Loan proceeds	40,805,377						40,805,377
Transfers in	98,355						98,355
Transfer out	-	-	-	-	(98,355)	-	(98,355)
Payment to refunded bonds	<u>(35,685,377)</u>						<u>(35,685,377)</u>
Total other financing sources (uses)	<u>29,127,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(98,355)</u>	<u>-</u>	<u>29,029,623</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	2,016,003	(10,128)	-	-	2,936,949	-	4,942,824
FUND BALANCE AT BEGINNING OF YEAR	<u>34,121,774</u>	<u>114,649</u>			<u>7,017,598</u>		<u>41,254,021</u>
FUND BALANCE AT END OF YEAR	\$36,137,777	\$104,521	\$ -	\$ -	\$9,954,547	\$ -	\$ 46,196,845

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, 2004**

Net change in fund balances - total governmental funds \$4,942,824

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. 22,376,099
- 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. 9,097,843
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (64,715,000)
- Governmental funds report payments of refunded debt as other Financing uses because uses current financial sources. 35,685,377
- 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. (9,281,833)
- Gain on disposition of assets in reported in the statement of Activities, but do not require the source of current financial resources 1,382,704)
- Some expenses such as compensated absences, claims and judgments advances from CRIM and landfill costs, 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 \$ (11,958,356)

The accompanying notes are integral part of these financial statements.

**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, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$28,814,896	\$28,814,896	30,353,609	\$1,538,713
Municipal license taxes	17,486,659	17,486,659	17,671,799	185,140
Royalties and other	1,826,031	1,826,031	1,804,033	(21,998)
Licenses and permits	9,053,352	9,053,352	5,751,420	(3,301,932)
Charges for service and rents	324,500	324,500	393,416	68,916
Intergovernmental revenues:				
State contributions	9,082,599	9,082,599	10,067,710	985,111
Interest	2,400,000	2,400,000	206,559	(2,193,441)
Other revenues	<u>22,305,656</u>	<u>22,305,656</u>	<u>2,355,805</u>	<u>(19,949,851)</u>
Total revenues	<u>91,293,693</u>	<u>91,293,693</u>	<u>68,604,351</u>	<u>(22,689,342)</u>
EXPENDITURES				
General government	34,383,429	34,871,157	34,856,951	14,206
Public safety	11,084,039	10,234,770	10,232,578	2,192
Public works	17,226,876	19,066,278	18,467,417	598,861
Culture and recreation	8,333,467	8,931,159	9,054,122	(122,963)
Health and welfare	13,761,439	13,727,124	13,722,053	5,071
Legal services	1,036,438	1,037,481	914,315	123,166
Debt service:				-
Principal	5,468,005	3,425,724	2,652,843	772,881
Interest	<u> </u>	<u> </u>	<u>961,896</u>	<u>(961,896)</u>
Total expenditures	<u>91,293,693</u>	<u>91,293,693</u>	<u>90,862,175</u>	<u>431,518</u>
Excess of revenues over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (22,257,824)</u>	<u>\$ (22,257,824)</u>

The accompanying notes are integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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.

The financial information of the Municipality is presented in this report as follows:

- Management's Discussion and Analysis- Introduces the basic financial statements and provides an analytical overview of the Municipality's financial Activities.
- 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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 and both component units are fiscally dependant on the primary government.

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.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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 and the accrual basis of accounting*. 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,

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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, licenses, permits or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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. Restricted Assets

Funds set aside by the general fund for payments and guarantee of bonds and interest payable and funds required to be held and deposited in escrow account to cover he closure and postclosure care cost of the municipal solid waste landfill facilities.

f. 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.

g. Interfund Receivables and Payables

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.

h. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (which is

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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. In the accompanying statement of net assets, all individual capital assets over the threshold amounts of \$25 have been capitalized and depreciated. Such amount has been determined by the Basic Standards of the Municipalities of Puerto Rico, which is the guide that regulates the Municipalities.

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

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

i. 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.

j. 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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, 2004, the amount reserved for landfill and postclosure care costs was \$3,407,084.

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.

k. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2004 amounted to approximately \$2.2 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.8 million for workers

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

compensation insurance covering all municipal employees. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

i. 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.

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

m. 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.

n. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

o. 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>
40	Deposit and Investment Risk Disclosure	2004-05
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2004-05
43	Financial Reporting for Post-Employment Benefit Other than Pension Plans	2005-06
44	Economic Condition Reporting: The Statistical Section-an amendment on NCGA Statement I	2005-06
45	Accounting and Financial Reporting for Employers for Post-employment Benefits other than Pensions	2009-10

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 Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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, include 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.

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, 2004 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 difference in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2004 is presented below for the general, and debt service funds:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>General</u>
Deficiency of expenditures over revenues - budgetary basis	\$ (22,257,824)
Entity differences:	
Non-budgeted revenues	27,598,725
Non-budgeted expenses	(32,909,966)
Timing differences:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	(\$ 804,231)
Current year encumbrances recorded as expenditures for budgetary purposes	894,234
Basis of accounting differences-net change In receivables	<u>367,087</u>
Deficiency of revenues over expenditures-GAAP Basis	(<u>\$27,111,975</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 \$235million difference are as follows:

Bonds payable	\$142,185,000
Advances from CRIM	60,447,198

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Loan guarantee notes	11,745,000
Landfill Obligation	6,371,896
Accrued interest payable	415,050
Claims and judgments	450,000
Compensated absences	<u>13,783,243</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$235,397,387</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 balance of deposits with financial institutions is categorized to provide and indication of the level of collateral risk assumed by the Municipality at June 30, 2004. Risk categories are described as follow:

Category 1: Deposit is insured or collateralized with securities held by the Secretary of the Treasury's agents in the Municipality's name.

Category 2: Deposit is collateralized with securities held by pledging financial institution's trust department of agent in the Municipality's name.

Category 3: Deposit is uncollateralized; including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Municipality's name.

The Municipality's bank balances in commercial bank of approximately \$20.9 million are fully collateralized at June 30, 2004 (Category 1). The deposit at GDB of approximately \$28.1 million that are restricted principally for capital projects, and the \$15.2 million in the

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental bank (Category 3).

Investments of \$16.2 million represent certificates of deposits which are restricted by applicable debt agreements, such investments are fully collateralized at June 30, 2004 (Category 1).

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

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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, 2004, presented as noncurrent liabilities in the government-wide financial statements amounted to approximately \$60.4 million.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2003-04, 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, 2004,

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

the amount collected from taxpayers and charges by CRIM exceeded the amount received in advances from CRIM for the same period by approximately \$495,000. Such amount is presented as due from the agencies in the basic financial statements (refer to Note 9).

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 2000-2001. 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, 2004. 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

a. Interfund receivables and payables balances at June 30, 2004 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
HUD Program	General Fund	\$2,096,088
General Fund	Other Governmental Fund	242,256
General Fund	HUD Program	33,310

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
HHS Program	General Fund	1,713
General Fund	HH Program	45
WIA Program	General Fun	<u>22</u>
		<u>\$2,373,434</u>

The balance of \$2,096,088 due to HUD Program from the general fund represents a loan for payments of payroll from prior year, which the federal agency has stipulated the repayments terms, of which approximately \$ 1million be repaid in the subsequent year.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

b. Interfund transfers

Interfund transfers between the general and debt service funds of approximately \$98,355 represent the interest income received from the CRIM.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

U.S Department of Labor - WIA	\$503,594
Municipal Revenue Collection Center (CRIM)	495,384
Other Governmental Funds-FEMA	485,601
HHS - Head Start	425,634
Other Governmental Fund-Ryan White	385,082
Education Department of Puerto Rico	130,450
HHS – USDA	128,148
Legislative of Puerto Rico	120,000
HUD- HOME	104,805
HUD-UDAG	61,074
HUD - Emergency Shelter	31,011
HUD – Disaster Recovery Initiative Hortense	<u>16,891</u>
Total	<u>\$2,887,674</u>

10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government	Balance				Balance
	June 30, 2003	Increases	Decreases	Reclassification	June 30, 2004
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 24,439,718	\$2,230,477	\$	57,829	\$ 24,728,024
Construction in progress	34,235,270	15,323,444	16,345,780		33,212,934
Total capital assets, not being depreciated	<u>58,674,988</u>	<u>17,553,921</u>	<u>16,345,780</u>	<u>57,829</u>	<u>59,940,958</u>
Capital assets being depreciated:					
Building and building improvements	77,824,647	5,767,962		(52,248,942)	31,343,667
Land improvements	4,357,261		1,730,089		2,627,172
Machinery and equipments	15,313,807	15,385,102	785,833		29,913,076
Infrastructure	48,080,121	1,288,243	1,280,614	52,191,113	100,278,863
Total capital assets being depreciated	<u>145,575,836</u>	<u>22,441,307</u>	<u>3,796,536</u>	<u>(57,829)</u>	<u>164,162,778</u>
Less accumulated depreciation for:					
Buildings and buildings improvements	15,319,728	454,513	3,274,644	(5,917,892)	6,581,705
Land improvements	1,038,980	47,289	596,336		489,933
Machinery and equipments	12,499,135	7,184,943			19,684,078
Infrastructure	11,648,503	1,595,088	1,308,260	5,917,892	17,853,223
Total accumulated depreciation	<u>40,506,346</u>	<u>9,281,833</u>	<u>5,179,240</u>		<u>44,608,939</u>
Total capital assets, being depreciated, net	<u>105,069,490</u>	<u>13,159,474</u>	<u>(1,382,704)</u>	<u>(57,829)</u>	<u>119,553,839</u>
Governmental activities capital assets, net	<u>\$ 163,744,478</u>	<u>\$30,713,395</u>	<u>\$ 14,963,076</u>	<u>\$</u>	<u>\$179,494,797</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

11. ACCOUNTS PAYABLE AND DUE TO OTHER AGENCIES

a. Accounts payable at June 30, 2004 were as follow:

<u>Funds</u>	<u>Vendors</u>	<u>Salaries and Benefit</u>	<u>Total</u>
General Fund	\$22,981,963	\$776,631	\$23,758,594
HUD Programs	412,266	41,142	453,408
WIA Programs	500,011	35,598	535,609
HHS Programs	402,096	236,194	638,290
Other Governmental Funds	<u>721,621</u>	<u>2,645</u>	<u>724,266</u>
	<u>\$25,017,957</u>	<u>\$1,092,210</u>	<u>\$26,110,167</u>

b. Due to other agencies at June 30, 2004 are as follow:

Puerto Rico Electric Power Authority	\$ 1,247,580
Puerto Rico Public Building Authority	1,260,064
Employee's Retirement System	724,02
Puerto Rico Water and Sewer Authority	250,829
State Insurance Fund Corporation	367,871
Treasury Department	<u>102,961</u>
Total	<u><u>\$ 3,953,334</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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:

Communities Rehabilitations Projects	\$ 11,676,573
Puerto Rico Department of Natural Resources	7,500,000
Commonwealth of Puerto Rico Joint resolutions	7,188,718
Puerto Rico Electronic Power Authority	4,813,914
Lottery of Puerto Rico-CRIM	2,764,686
Other Intergovernmental revenues	1,338,577
Reimbursements from the commonwealth of Puerto Rico of Christmas bonus expenditure	1,275,481
Citizen Participation for the Municipal Development program-CRIM	264,008
Puerto Rico Department of Education	<u>130,450</u>
 Total	 <u><u>\$ 36,952,407</u></u>

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of approximately \$14.9 million in the general fund related to the municipal license tax collected in fiscal years 2003-2004 that will be earned in fiscal year 2004-2005.

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 federals programs/ grants:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF PONCE
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Program/ Grant Description

Lower Income Housing Assistance and Section 8 Housing Voucher	\$ 3,273,057
Loan Guarantee Assistance	1,194,611
Workforce Investment Act	31,339
Casa Dorada, Inc	562,121
Home Devolution	231,331
Local Law enforcement	21,508
San Antón Project	157,253
Huracan Georges	31,360
Child Care	28,870
Housing Administration-St. Thomas	5,026
Rental Rehabilitation	756
Community Development Block Grant	<u>152,104</u>
 Total	 <u><u>\$ 5,689,336</u></u>

14. LONG-TERM DEBT

Bonds and notes payable outstanding at June 30,2004 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%.	\$ 2,715,000
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%.	1,095,000
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%.	6,855,000
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%.	2,180,000
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%.	29,810,000

2002 general obligations bonds due in annual installments of \$800,000 to \$3,195,000, through July 1, 2027; with interest ranging from 5.00% to 6.50 %.	40,000,000
2004 general obligations bonds due in annual installments of \$200,000 to \$750,000, through July 1, 2028; with interest ranging from 2.5% to 5.55 %.	10,450,000
2004 special obligations bond due in annual installments of \$250,000 to \$950,000, through July 1, 2028; with interest ranging from 2.25% to 5.55 %.	12,950,000
2004 special obligations bond due in annual installments of \$240,000 to \$995,000, through July 1, 2023; with interest ranging from 2.425% to 5.50%	11,780,000
2004 general obligations bond due in annual installments of \$325,000 to \$1,250,000, through July 1, 2023; with interest from LIBOR rate in first 90 days plus .45%.	15,970,000
2004 special obligations bond due in annual installments of \$85,000 to \$335,000, through July 1, 2028; with interest ranging from 2.45% to 5.60%.	4,450,000
2004 special obligations bond due in annual installments of \$150,000 to \$575,000, through July 1, 2028; with interest ranging from 2.45% to 5.60%.	<u>\$ 7,865,000</u>
Total outstanding bonds	<u>\$146,120,000</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 government through the Loan Guarantee Assistance Program and will be repaid from future appropriations to the Municipality's Community Development Block Grant for Puerto Rico program.

Advances from CRIM

These amounts represent the balances owed to CRIM at June 30, 2004 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.

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

<u>Bonds Payable</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 5,500,000	\$ 6,396,407
2006	5,905,000	6,404,015
2007	4,820,000	6,387,139
2008	4,740,000	6,304,011
2009	5,045,000	6,207,996
2010-2014	26,615,000	28,340,653
2015-2019	31,565,000	24,220,446
2020-2024	40,535,000	13,039,610
2025-2029	21,395,000	2,711,777
	<u>\$ 146,120,000</u>	<u>\$ 100,012,054</u>

Loan Guarantee Assistance Notes

2005	\$ 2,505,000	\$ 415,079
2006	2,325,000	638,110
2007	1,210,000	457,730
2008	920,000	369,932
2009	940,000	306,174
2010-2013	2,715,000	871,737
2014-2015	1,130,000	110,539
	<u>\$ 11,745,000</u>	<u>\$ 3,169,301</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, 2004 amounted to approximately \$860 millions. Long-term debt, except for the bonds payable and the loan guarantee assistance notes, is paid with unrestricted funds.

During the year ended June 30, 2004, the Municipality issued \$35,870 of Municipal General Obligation Refinancing Bonds of 2004 for a current refunding of Special and General Obligation Bonds. The refunding was undertaken to reduce future debt service payments. The reacquisition price exceeds the net carrying amount of the old debt by approximately \$87,000. This amount is being netted against the new debt and amortized over the new debt's life. The transaction also resulted in a reduction of \$6.1 million in future debt service payments.

Component Units

The notes payable 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.	\$ 1,924,165
Loan bearing interest at 7.9% payable in monthly installments of \$430 due in June 2005 secured by motor vehicles.	<u>3,933</u>
Total	<u>\$ 1,928,098</u>
Fixed maturities requires to pay principal of CODEPCOVI motor vehicles loan as of June 30, 2004 amounted to \$3,933.	
2005	<u>\$ 3,933</u>

Long-term liability activity for the year ended June 30, 2004 was as follows:

Primary Government: Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due within One year
		\$			
Bonds Payable	\$ 109,540,000	64,715,000	\$ 28,135,000	\$ 75,325,000	\$ 5,785,000
Notes payable	14,138,220		14,138,220		
Loan guarantee					
assistance notes	14,255,000		2,510,000	11,745,000	2,505,000
Tot long-term debt	137,933,220	64,715,000	44,783,220	157,865,000	8,005,000
Advances from CRIM	51,151,618	9,295,580		60,447,198	
Landfill obligation	5,742,195	629,701		6,371,896	
Claims and judgments	450,000			450,000	
Compensated absences	12,262,154	3,532,516	2,011,427	13,783,243	1,653,989
Total other liabilities, governmental activities	69,605,967	13,457,797	2,011,427	81,052,337	1,653,989
Total noncurrent liabilities, Governmental activities	\$ 207,539,187	\$ 78,172,797	\$ 46,794,647	\$ 238,917,337	\$ 9,658,989
Component Units:					
CODEPCOVI:					
Notes Payable	\$ 4,191,663	\$ -	\$ 2,263,565	\$ 1,928,098	\$ 1,928,098

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.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty (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 years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of 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 on or 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 plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. 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 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives.

Participants will receive periodic account 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, 200 was approximately \$3.7 million. The Municipality's payroll for employees covered by ERS was approximately \$39.9 million. The Municipality total payroll for all employees was approximately \$48 million. For the two preceding fiscal years, the Municipality contributed approximately \$3.4 million and \$3.2 million, which represented 100% of required contributions.

Additional information of ERS is presented in its financial statements for the year ended June 30, 2004 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 data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

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 expenditures recorded in the basic financial statements for the year ended June 30, 2004, amounted to approximately \$1.2 million. 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, 2004 of approximately \$63.3 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, 2004 are as follow:

2005	827,843
2006	827,843
2007	<u>827,843</u>
Total	<u><u>\$2,483,529</u></u>

18. CONTIGENCIES, LIABILITIES FOR CLAIMS AND JUDGEMENT AND OTHER

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 advice of the legal counsel, that the potential claims against 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 b 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, 2004, 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 may be required to reimburse the grantor. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors. Although, such audits could generated expenditure disallowance under the terms of the grants, management believes that any required reimbursement 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 defendants to construct 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 2004, the Municipality received approximately \$3.7 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 an escrow account to fund the accumulated liability to cover estimated closure and post-closure cost of the landfill. For the year ended June 30, 2004, revenues earned under the agreement amounted to \$1.8 million and presented in the accompanying statement of changes in net assets and statement of revenue, expenditures and changes in fund balances. The amounts deposited in the escrow account as part of the agreement with the landfill administrator are presented in the accompanying statement of net assets as cash held in escrow account for landfill closure and post-closure care cost. At June 30, 2004 the portion of the revenues required to be deposited in the escrow account was \$3.4 million (same as June 30, 2003).

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 of June 30, 2004 the Municipality's recognized approximately \$630,000 million as the Municipality's estimated obligation for the landfill closure and post-closure care cost. The estimated amount of \$6.4 million is based on what it would cost to perform all closure and post-closure care in 2004. Actual costs may be different due to inflation, changes in technology, or changes in law and regulations. At June 30, 2004, the percentage of landfill capacity used to date was approximately 57% and the estimated remaining life was approximately 10.5 years.

20. SUBSEQUENT EVENTS

- a. In July 2004, the Municipality issued a tax anticipation note for \$10,037,000 with a maturity date on September 2004.
- b. In October 2004, the Municipality formalized a new contract with BFI of Ponce, Inc. in which financial responsibilities for closure and post closure cost will be assumed by BFI of Ponce, Inc.

COMBINING SCHEDULES

MUNICIPALITY OF PONCE

General Fund

Comparative Balance Sheets

June 30, 2004 and 2003

Assets	2004	2003
Cash	\$ 1,766,348	\$ 16,166,257
Accounts receivable :		
Municipal license tax	36,128	144,432
Royalties		101,873
Interest	73,081	168,738
Due from other agencies	342,776	1,253,825
Advances to other funds	275,556	338,577
Restricted Assets:		
Cash and cash equivalents	30,731,454	
Cash with fiscal agent	28,046,818	49,151,454
Investments	16,200,000	
Cash held in escrow account for landfill closure and post closure care costs	3,407,084	3,405,379
Total assets	\$ 80,879,245	\$ 70,730,535
Liabilities		
Book overdraft	\$ 3,065,499	\$
Accounts payable and accrued liabilities	20,693,095	16,620,379
Due to other agencies	3,953,334	2,735,803
Advances from other funds	2,097,823	2,120,858
Deferred revenue:		
Municipal license tax	14,931,717	14,583,578
Federal Government	-	548,143
Total Liabilities	44,741,468	36,608,761
Fund Balance		
Reserved for:		
Encumbrances	757,962	804,231
Advances	275,556	338,577
Landfill closure and post closure care costs	3,407,084	3,405,379
Capital projects	63,278,047	55,710,703
Unreserved fund balance	(31,580,872)	(26,137,116)
Total Fund Balance	36,137,777	34,121,774
Total liabilities and fund balance	\$ 80,879,245	\$ 70,730,535

MUNICIPALITY OF PONCE

General Fund

Comparative Statements of Revenues,
Expenditures and Changes in Fund Balance

Years ended June 30, 2004 and 2003

	2004	2003
Revenues :		
Property taxes	\$30,445,935	\$ 32,337,440
Municipal license tax	17,707,927	17,495,790
Royalties and other	1,804,033	1,918,619
Licenses and permits	5,814,948	6,395,107
Charges for service and rents	1,146,597	1,078,999
Intergovernmental revenues - State Contributions	36,952,407	19,036,526
Interests, fines and penalties	279,640	2,608,835
Other revenues	2,418,676	15,958,068
	\$96,570,163	\$ 96,829,384
Total revenues		
Expenditures :		
General government	35,145,492	30,940,914
Public safety	10,232,578	9,536,157
Public works	18,089,619	16,825,970
Culture and recreation	9,047,549	7,513,385
Health and welfare	13,716,671	11,487,177
Legal services	957,169	851,303
Capital outlays	32,878,321	33,350,152
Debt service :		
Principal retirement	2,652,843	6,155,865
Interest and other	961,896	897,596
	123,682,138	117,558,519
Total expenditures		
Deficiency of revenues under expenditures	(27,111,975)	(20,729,135)
Other financing sources (uses) :		
Proceeds from refunding bonds	23,909,623	
Loan proceeds	40,805,377	40,000,000
Operating transfers from other funds	98,355	112,281
Payment to refunded bonds	(35,685,377)	
	29,127,978	40,112,281
Total other financing sources		
Excess (Deficiency) of revenues over (under) expenditures and other financing sources (uses)	2,016,003	19,383,146
Fund Balance at beginning of year	34,121,774	14,738,628
Fund Balance at end of year	\$ 36,137,777	\$ 34,121,774

MUNICIPALITY OF PONCE

Statement of Revenues and Expenditures
Debt Service Fund- Budget and Actual

For the Fiscal Year Ended June 30, 2004

Debt Service Fund

	Budget Original	Amounts Final	Actual	Variance with Final Budget- Positive (Negative)
Revenues				
Property taxes	\$ 8,467,085	\$ 8,467,085	\$10,433,177	\$1,966,092
Interests, fines and forfeitures			94,887	94,887
Total revenues	<u>8,467,085</u>	<u>\$ 8,467,085</u>	<u>\$10,528,064</u>	<u>2,060,979</u>
Expenditures				
Debt service				
Principal	4,267,676	4,267,676	3,935,000	(332,676)
Interest	4,199,409	4,199,409	3,797,421	(401,988)
Total Expenditures	8,467,085	8,467,085	7,732,421	(734,664)
Excess of revenues over Expenditures	-	-	2,795,643	2,795,643

NON-MAJOR GOVERNMENTAL FUNDS

- Home Devolutions – Fund used to account for the subsidies for the acquisition of
- Housing
- Ryan White- To provide direct financial assistance to eligible metropolitan areas (EMAs) that have been the most severely affected by the Human Immunodeficiency Virus (HIV) epidemic to develop, organize and operate programs that provide an effective, appropriate and cost efficient continuum of health care and support services for the individuals and families with HIV disease.
- FEMA-To provide assistance for emergency cases due to natural disasters.
- Rental Rehabilitation-To provide assistance for rehabilitation of housing.
- Local Law-Fund used for the acquisition of police equipment.
- San Anton- To Provide assistance for rehabilitation of the Community of San Antón,

Ponce.

MUNICIPALITY OF PONCE
Combining Balance Sheet
Non major Governmental Funds
June 30,2004

Assets

	<u>Home devolutions</u>	<u>Ryan White</u>	<u>Rental Rehabilitarion</u>	<u>F.E.M.A.</u>	<u>Local law</u>	<u>San Anton</u>	<u>Total Nonmajor governmental funds</u>
Cash and cash equivalent	231,331	27,574	756	252	89,521	157,253	506,687
Federal grant receivable		385,082		485,601			870,683
Total assets	<u>231,331</u>	<u>\$ 412,656</u>	<u>\$ 756</u>	<u>\$ 485,853</u>	<u>\$ 89,521</u>	<u>\$157,253</u>	<u>\$ 1,377,370</u>

Liabilities

Account payable		392,623		263,630	68,013		724,266
Due to general funds		20,033		222,223			
Due to federal government							
Deferred revenue	<u>231,331</u>				<u>21,508</u>		<u>410,848</u>
Total liabilities	<u>\$ 231,331</u>	<u>\$ 412,656</u>	<u>\$ 756</u>	<u>\$ 485,853</u>	<u>\$ 89,521</u>	<u>\$157,253</u>	<u>\$ 1,377,370</u>

FUND BALANCE

Federal Programs	_____	_____	_____	_____	_____	_____	_____
Total fund balances	<u>-</u>	_____	<u>-</u>	_____	<u>-</u>	<u>-</u>	_____
Total liabilities and fund balance	<u>\$ 231,331</u>	<u>\$ 412,656</u>	<u>\$ 756</u>	<u>\$ 485,853</u>	<u>\$ 89,521</u>	<u>\$157,253</u>	<u>\$ 1,377,370</u>

MUNICIPALITY OF PONCE
Combining Statement of Revenue, Expenditure, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

	<u>Home</u>	<u>Ryan White</u>	<u>Local law</u>	<u>Total Nonmajor governmental funds</u>
REVENUE	\$ 20,000	\$ 2,739,668	\$ 141,406	\$2,901,074
EXPENDITURE	20,000	2,739,668	141,406	2,901,074
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	-	-	-	-

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:	2004	2003
Land	\$ 26,728,024	\$ 24,436,718
Buildings	31,343,667	77,824,647
Improvements other than buildings	2,627,172	4,357,261
Machinery and equipment	29,913,076	15,313,807
Infrastructure	100,278,863	48,080,121
Construction in progress	33,212,934	34,235,270
Total governmental funds capital assets	\$ 224,103,736	\$ 204,250,824
Investment in governmental funds capital assets by sources		
General fund	\$ 123,235,108	\$ 65,833,560
Special revenue fund	72,051,305	72,500,000
Capital projects funds	28,817,323	65,917,264
Donations	0	0
Total governmental funds capital assets	\$ 224,103,736	\$ 204,250,824

PART III. STATISTICAL SECTION

UNICIPALITY OF PONCE

General Governmental

Revenues by Source¹

Last Ten Fiscal Years

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Revenues by Sources:										
Property taxes	\$43,786,500	\$40,377,130	\$43,025,904	\$39,249,194	\$37,931,306	\$34,482,178	\$35,988,513	\$34,343,273	\$34,007,003	\$36,156,874
Sale of property tax collection rights			-	-	-	6,963,764	-	-	-	-
Municipal license taxes	17,416,053	17,495,790	16,927,289	17,207,104	14,629,789	14,712,311	13,368,317	12,266,161	11,630,296	11,014,586
Royalties and others	1,804,033	1,918,619	1,816,746	1,836,061	2,270,209	2,611,715	1,691,365	1,608,064	1,449,478	-
Licenses and permits	6,476,395	6,395,107	3,284,751	2,303,993	3,794,226	2,922,294	3,066,209	2,349,751	2,425,462	679,398
Changes for services and rent	992,012	1,078,999	563,349	254,921	337,499	311,889	435,124	380,742	426,547	411,650
Intergovernmental:										
Federal	38,079,844	44,616,176	42,450,395	42,903,341	37,247,396	33,844,882	41,148,100	40,235,834	37,169,071	33,842,656
State contributions	37,732,609	19,036,526	9,141,848	7,479,839	5,893,338	9,436,035	9,526,562	10,284,877	8,375,676	14,152,157
Interest, fines and penalties	460,130	2,725,087	2,189,785	1,607,403	1,846,508	1,201,096	1,522,108	1,029,154	824,931	760,390
Miscellaneous	1,966,687	15,958,068	16,193,370	1,183,293	1,277,055	881,891	967,384	855,628	197,308	1,337,323
Total	<u>\$148,714,263</u>	<u>\$149,601,502</u>	<u>\$135,593,437</u>	<u>\$114,025,149</u>	<u>\$105,227,326</u>	<u>\$107,368,055</u>	<u>\$107,713,682</u>	<u>\$103,353,484</u>	<u>\$96,505,772</u>	<u>\$98,355,034</u>

MUNICIPALITY OF PONCE

General Governmental Expenditures by Function¹

Last Ten Fiscal Years

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
General government	\$32,464,284	\$30,940,914	\$29,712,061	\$23,850,734	\$25,486,551	\$28,112,874	\$24,512,771	\$24,131,708	\$27,709,822	\$22,826,460
Public safety	25,358,973	9,877,662	8,979,368	7,589,077	6,982,414	6,413,669	6,671,964	6,227,773	4,861,324	4,170,426
Public work	18,109,619	16,825,970	16,490,889	14,355,530	13,147,209	15,365,484	14,624,163	16,207,159	22,692,792	14,982,726
Culture and recreation	9,047,876	7,513,385	7,510,837	6,710,750	6,339,466	6,153,458	6,591,802	7,206,742	5,712,616	3,775,274
Health and welfare	13,716,671	27,291,529	25,970,381	33,034,986	30,662,745	25,652,794	27,351,346	28,000,998	26,363,720	23,591,668
Urban development	15,201,730	17,464,626	16,648,032	5,798,916	4,605,672	3,811,503	11,547,293	12,724,744	11,492,981	18,410,291
Legal service	957,169	851,303	852,146	750,619	729,740	656,729	768,987	757,750	999,848	640,904
Education	7,590,213	11,005,817	10,651,201	9,557,394	7,186,080	6,860,854	6,326,416	5,176,759	4,960,151	5,529,230
Capital outlays	31,753,660	33,350,152	11,478,985	8,057,043	4,691,037	1,568,265	3,586,421	2,381,098	1,358,908	1,898,839
Debt service:										
Principal	7,529,590	11,940,865	9,270,558	11,127,423	10,493,729	13,488,587	11,901,156	9,337,782	4,325,740	14,563,796
Interest and other	4,536,618	4,801,790	5,889,765	6,951,417	7,363,307	8,253,395	8,243,261	7,330,738	7,199,025	6,374,151
Total expenditure	<u>\$166,266,403</u>	<u>\$171,864,013</u>	<u>\$143,454,223</u>	<u>\$127,783,889</u>	<u>\$117,687,950</u>	<u>\$116,337,612</u>	<u>\$122,125,580</u>	<u>\$119,483,251</u>	<u>\$117,676,927</u>	<u>\$116,763,765</u>

¹Includes General, Special Revenue, Debt Service and Capital Projects funds.

MUNICIPALITY OF PONCE

Assessed Value of Taxable Real and Personal Property¹

Last Five Years

<u>Fiscal</u> <u>Year</u>	<u>Gross</u> <u>Valuation</u>	<u>Exempt</u> <u>Value</u>	<u>Exonerated</u> <u>Value</u>	<u>Net</u> <u>Assessed</u> <u>Value</u>
2004	\$ 1,063,791,293	\$ 209,9689,635	\$ 266,254,693	\$ 587,567,965
2003	1,046,629,310	196,100,178	260,090,093	590,439,039
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.

¹ Information prior to 1998 is unavailable.

MUNICIPALITY OF PONCE

Real and Personal Property Tax Levies and Collections¹

Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Total Current Year Tax Levy</u>	<u>Current Tax Collected</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collected</u>	<u>Total Tax Collected</u>	<u>Total Tax Collected as % of Current Levy</u>
2004	\$ 43,360,252	\$ 36,134,413	83%	4,064,671	\$ 40,199,083	100%
2003	43,278,678	33,949,737	78%	4,636,007	38,585,744	89%
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.

¹ 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> ¹	<u>Bond Redemption</u> ²	<u>Commonwealth of Puerto Rico</u> ³	<u>Discount</u> ^a	<u>Total</u>
2004	4.00%	1.50%	1.03%	0.20%	6.73%
2003	4.00%	1.50%	1.03%	0.20%	6.73%
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%

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

²Represents the ad valorem tax restricted for Debt Service.

³Represents a percentage retained by Commonwealth of Puerto Rico.

^aRepresents 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 Purpose¹</u>	<u>Bond Redemption²</u>	<u>Commonwealth of Puerto Rico³</u>	<u>Discount^a</u>	<u>Total</u>
2004	6.00%	1.50%	1.03%	0.20%	8.73%
2003	6.00%	1.50%	1.03%	0.20%	8.73%
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%

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

²Represents the ad valorem tax restricted for Debt Service.

³Represents a percentage retained by Commonwealth of Puerto Rico.

^aRepresents amount by the Commonwealth of Puerto Rico.

MUNICIPALITY OF PONCE

Computation of Legal Debt Margin

June 30,2004

(in thousands of dollars)

Assessed value of property located within the Municipality of Ponce	<u>\$ 1,063,791</u>
Legal debt limit- 10% of the total assessed value of property located within The Municipality of Ponce	\$ 106,379
Total general obligation bond outstanding applicable to legal debt limit	<u>(85,200)</u>
Available legal margin	<u>\$ 21,179</u>
Ratio of available legal debt margin to legal debt limit	<u>19.91%</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)

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Gross Bonded Debt</u>	<u>Less Debt Service Fund Balance</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt per Capital</u>
2004	191,318	\$ 1,063,791	\$146,295	\$ 9,955	\$ 136,340	0.13	0.713
2003	191,299	850,529	109,540	7,018	102,522	0.12	0.536
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

Source: ¹ U.S. Bureau of the Census.

² Municipal Revenue Collection Center.

^a 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>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Debt service:										
Principal	\$3,935	\$5,785	\$5,360	\$4,950	\$2,245	\$6,685	\$5,130	5,045	2,245	2,115
Interest	1,728	3,904	4,807	3,608	2,766	2,940	3,373	2,724	2,766	2,743
Total debt service	5,663	3,904	10,167	8,558	5,011	9,625	8,503	7,769	5,011	4,858
Total general expenditures ¹	\$166,266	\$171,864	\$143,454	\$127,783	\$117,687	\$116,337	\$122,125	119,483	117,676	116,763
Debt services to general expenditures (percentage)	3.41%	5.64%	7.09%	6.70%	4.26%	8.27%	6.96%	6.50%	4.26%	4.16%

¹ 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>	
2004	1,685,725	\$ 23,808,424	1,382,947	\$ 49,379,294	\$1,052,920,067
2003	377,733	57,374,988	970,645	60,736,289	684,603,933
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

Sources: Puerto Rico Planning Board for the years 1995 to 1997.

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

MUNICIPALITY OF PONCE

Demographic Statistics

For the Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>Employment</u>	<u>Unemployment Rate</u>
2004	191,318	51,805	11.60%
2003	191,299	50,113	12.20%
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%

Sources: U.S. Bureau of the Census.

Population Density

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

Population Age Distribution as of 2000 Census

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

Sources: U.S. Bureau of the Census.

COMMENTS RELATIVE TO STASTICAL INFORMATION

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.