

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CEIBA

AUDITORIA 2001-02

30 DE JUNIO DE 2002

RECIBO DEL GOBIERNO
DE PUERTO RICO
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA**

**SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2002**

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

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CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor
and Municipal Assembly
Municipality of Ceiba
Ceiba, Puerto Rico

We have audited the accompanying general purpose financial statements of the Municipality of Ceiba, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality of Ceiba' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as described in the following paragraph, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 6, the Municipality of Ceiba has not maintained complete and adequate records relating to the fixed assets of the General Fixed Assets Account Group. Accordingly, we were unable to satisfy ourself as to the fixed asset balance or such all group amounting to \$10,470,401.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to general fixed assets balances, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Ceiba as of June 30, 2002, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2002, on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

San Juan, Puerto Rico
December 10, 2002

The stamp 1847806 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

Assets	Governmental Fund Types				Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Asset	General Long Term Debt	Memorandum
Cash in bank (Note 2)	\$ 557,993	\$ 249,030	\$ -	\$ 638,605	\$ -	\$ -	\$ 1,445,628
Cash with fiscal agent (Note 2)			512,070	1,588,142			2,100,212
Due from other agencies (Note 7)	549,429	90,697					640,126
Other receivables		4,386					4,386
Property and equipment (Note 6)					10,470,401		10,470,401
Amount available in debt service fund (Note 2)						512,070	512,070
Amount to be provided for retirement of general long-term debt						2,341,388	2,341,388
Amount to be provided through property tax collected for payment of related property tax advances (Note 9)						1,064,148	1,064,148
Amount to be provided for payment of accrued vacation and sick leave (Note 1)						619,873	619,873
Amount to be provided for Puerto Rico Health Insurance Administration (Note 9)						175,659	175,659
Amount to be provided for payment of landfill obligation (Note 15)						447,726	447,726
Total assets	\$ 1,107,422	\$ 344,113	\$ 512,070	\$ 2,226,747	\$ 10,470,401	\$ 5,160,864	\$ 19,821,617

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2002**

Liabilities and Fund Equity	Governmental Fund Types				Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	General Fixed Asset	General Long Term Debt	Memorandum
Liabilities							
Account payable and accrued liabilities	\$ 348,316	\$ 111,123	\$ -	\$ 60,747	\$ -	\$ -	\$ 520,186
Due to other agencies (Note 8)	716,686	13,831					730,517
Deferred revenues (Note 4)	359,854	219,159					579,013
Accrued vacations and sick leave (Note 1)						619,873	619,873
General long-term debts (Note 9)						3,917,606	3,917,606
Puerto Rico Health Insurance Administration (Note 9)						175,659	175,659
Accrual landfill obligation (Note 15)						447,726	447,726
Total liabilities	1,424,856	344,113	-	60,747	-	5,160,864	6,990,580
Commitments and Contingencies (Notes 11, 12 and 13)							
Fund Equity (Deficit)							
Investment in general fixed assets					10,470,401		10,470,401
Fund balance							
Reserved for encumbrances	46,582						46,582
Reserved for debt service			512,070				512,070
Designated for capital additions				2,166,000			2,166,000
Undesignated (deficit) equity	(364,016)						(364,016)
Total fund equity (deficit)	(317,434)	-	512,070	2,166,000	10,470,401	-	12,831,037
Total liabilities and fund equity	\$ 1,107,422	\$ 344,113	\$ 512,070	\$ 2,226,747	\$ 10,470,401	\$ 5,160,864	\$ 19,821,617

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-ALL GOVERNMENT FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
REVENUES					
Property taxes (Note 3)	\$ 411,779	\$ -	\$ 402,903	\$ -	\$ 814,682
Municipal license taxes (Note 4)	603,175				603,175
Licenses and permits	357,509				357,509
Charges for service and rents	15,140				15,140
Inter-governmental revenues (Note 5):					
Federal grants and contributions		1,172,845			1,172,845
State contributions	4,204,312			602,500	4,806,812
Interest, fines, and penalties	61,551		6,889		68,440
Other revenues	3,797,786			137,191	3,934,977
Total revenues	<u>9,451,252</u>	<u>1,172,845</u>	<u>409,792</u>	<u>739,691</u>	<u>11,773,580</u>
EXPENDITURES					
Municipal council	72,198				72,198
Offices:					
Administrative Services	158,381				158,381
Mayor	651,862				651,862
Departments:					
Civil Defense	697,587				697,587
Finance	1,567,901				1,567,901
Health	328,364				328,364
Public Works	1,445,638	816,321			2,261,959
Recreation	253,354				253,354
Personnel	116,974				116,974
Capital outlays				914,661	914,661
Collection of property taxes applied to advances (Note 14)	521,781				521,781
Secretary	196,330				196,330
Welfare	220,498	356,524			577,022
General Government	2,933,655				2,933,655

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-ALL GOVERNMENT FUND TYPES (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Governmental Fund Types			Total	
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
Debt services:					
Principal retirement (Note 9)	\$ -	\$ -	\$ 236,100	\$ -	\$ 236,100
Interest payments			92,224		92,224
Total expenditures	9,164,523	1,172,845	328,324	914,661	11,580,353
Excess of (deficiency) of revenues over expenditures	286,729	-	81,468	(174,970)	193,227
OTHER FINANCING SOURCES (USES)					
Proceeds from loans				1,340,000	1,340,000
Advances of property taxes (Note 3)	521,781				521,781
Operating transfer-in	105,823		130,779		236,602
Operating transfer-out	(130,779)		(105,823)		(236,602)
Total other financing sources	496,825	-	24,956	1,340,000	1,861,781
Excess of revenues and other sources over expenditures and other uses	783,554	-	106,424	1,165,030	2,055,008
FUND BALANCE (DEFICIENCY) AT BEGINNING OF YEAR	(1,100,988)		405,646	1,000,970	305,628
FUND BALANCE (DEFICIENCY) AT END OF YEAR	\$ (317,434)	\$ -	\$ 512,070	\$ 2,166,000	\$ 2,360,636

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

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

	General Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES (Notes 1 and 14)						
Property taxes	\$ 328,022	\$ 411,779	\$ 83,757	\$ 218,275	\$ 402,903	\$ 184,628
Municipal license taxes	500,000	603,175	103,175			
Licenses and permits	1,190,500	357,509	(832,991)			
Charges for service and rents	1,200	15,140	13,940			
Inter-governmental revenues:						
State contributions	4,244,236	4,204,312	(39,924)			
Interest, fines, and penalties	54,000	68,199	14,199		6,889	6,889
Other revenues	262,500	390,254	127,754			
Total revenues	<u>6,580,458</u>	<u>6,050,368</u>	<u>(530,090)</u>	<u>218,275</u>	<u>409,792</u>	<u>191,517</u>
EXPENDITURES (Notes 1 and 14)						
Municipal council	147,853	72,199	75,654			
Offices:						
Administrative Services	216,613	158,381	58,232			
Mayor	729,983	651,862	78,121			
Departments:						
Civil Defense	780,647	697,587	83,060			
Finance	1,891,901	1,666,702	225,199			
Health	328,364	328,364	-			
Public Works	1,612,937	1,445,638	167,299			
Recreation	280,626	253,354	27,272			
Personnel	121,327	116,974	4,353			
Secretary	214,302	196,330	17,972			
Welfare	255,905	220,498	35,407			
Debt service; principal and interest payment				<u>218,275</u>	<u>303,368</u>	<u>(85,093)</u>
Total expenditures	<u>6,580,458</u>	<u>5,807,889</u>	<u>772,569</u>	<u>218,275</u>	<u>303,368</u>	<u>(85,093)</u>
Excess of revenues and expenditures	<u>\$ -</u>	<u>\$ 242,479</u>	<u>\$ 242,479</u>	<u>\$ -</u>	<u>\$ 106,424</u>	<u>\$ 106,424</u>

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Municipality of Ceiba, Puerto Rico (Municipality) was founded in 1838. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative 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 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

b. Summary of Significant Accounting Policies

The accounting policies of the Municipality are in accordance with the accounting principles generally accepted in the United States of America applicable to government entities. The Governmental Accounting Standards Board (GASB), is the standard-setting body for governmental accounting and financial reporting. On June 15, 1987, the GASB issued a codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The following is a summary of the most significant policies:

1) Fund Accounting

The accounts of the Municipality are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

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

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds are grouped in the financial statements into four fund types and other fund category, as follows:

a) Governmental Funds

i. General Fund

The General fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

ii. Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

iii. Debt Service Fund

Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

iv. Capital Project Funds

Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessments Funds and Agency Funds).

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

b) Fiduciary Funds

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the Municipality in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

c) Account Groups

Account groups are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

i. General Fixed Assets Account Group

This group of accounts is established to account for all fixed assets of the Municipality.

ii. General Long-term Debt Account Group

This group of accounts is established to account for all long-term debts of the Municipality.

d) Budgetary Control:

The Mayor submits and the Municipal Assembly approves, an annual budget for each fiscal year beginning July 1 as well as any amendment thereon. Appropriations in the Municipality budget consist of the following:

i. General Fund appropriations for recurrent and ordinary functions of the Municipality.

ii. Appropriations of Special Funds for specific purposes and for capital improvements are, for the most part, authorized by separate laws and

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

do not require annual legislative budget authorization because they are continuing appropriations.

2) Basis of Accounting

Governmental revenues and expenditures are recognized using the modified accrual basis. Revenues are recognized in the accounting period in which they become both measurable and available to be used to pay recorded liabilities. Expenditures are recognized in the accounting period in which the final liability is incurred, measurable, except for unmatured interest on general long-term debt, which is recognized when due. Agency fund assets and liabilities are accounted for on modified accrual basis.

To accrue the intergovernmental revenues, the legal and contractual requirements of individual programs are used as a guide. Essentially, there are two types of revenues. In one, the resources must be used in the specific projects and purposes before the revenues are recognized by the Municipality. Therefore, revenues are recognized based on recorded expenditures and submitted to the granting agencies for reimbursements. In the other revenues, resources are unrestricted as to purpose of expenditures and are usually revocable only for failure to comply with prescribed compliance requirements.

Licenses, fees, permits, fines and other revenues are recognized when received.

Interest income is recognized and accrued in the accounting period in which they are earned.

3) Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting (under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation) is utilized in the governmental funds. Encumbrances outstanding at a year end are reported as reservations of fund balances and do not constitute expenditures

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

or liabilities because the commitments will be honored during the subsequent year.

4) Total Column (Memorandum Only)

The amounts presented under this column represent the aggregate amount of the different types of funds and account groups. The totals under this column were not obtained from eliminations or consolidations, accordingly, they do not present consolidated information.

5) Insurance

The Municipality has insurance coverage for their public facilities and certain officials are covered by a fidelity bond. The Secretary of Treasury is the person authorized to negotiate the insurance coverage of the Municipality.

6) Inventories

The General and Special Revenue Fund purchase office and printing supplies, gasoline, oil and other items. The cost of current purchases is recorded as expenditures.

7) Interfund Transactions

Interfund transactions represent operating transfers from a fund receiving revenues to a fund through which the resources are to be disbursed.

8) Vacation and Sick Leave

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. 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 vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every

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

year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

9) Reporting Entity

In evaluating the Municipality as a reporting entity, management has addressed all potential component units which may or may not fall within the Municipality's oversight and control and, as such, be included within the Municipality's financial statements. The basic criteria for including a component unit within the Municipality's reporting entity is the exercise of oversight responsibility by the Municipality's Council. The specific criteria used by the Municipality for establishing oversight responsibility are:

Manifestations of Oversight Responsibility

- Selection of Governing Authority
- Designation of Management
- Ability to Influence Operations Significantly

Accountability for Fiscal Matters

- Budgetary Authority
- Surplus/Deficit
- Responsibility for Debt
- Fiscal Management
- Revenue Characteristics

Factors other than oversight which may significantly influence the entity relationship are:

**Scope of Public Service
Special Financing Relationships**

The relative importance of each criteria is evaluated in light of specific circumstances in order to determine which component units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the Municipality of Ceiba indicate that the reporting entity consists of all funds and accounts groups included in the combined

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

balance sheet, therefore no organizations, activities or functions were excluded from the reporting entity.

10) 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 related disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates consist of the contribution received from the Electric Power Authority of Puerto Rico and the Municipal Revenue Collection Center (CRIM) caused by the delay of the notification of the real revenues and expenditures to be presented in the financial statements of the agencies mentioned above. Actual results could differ from those estimates.

11) Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>		<u>Adoption Required in Fiscal Year</u>
34	Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments	2003-04
37	Reporting Model Omnibus	2003-04
38	Note Disclosures	2003-04
39	Determining Whether Certain Organizations are Components Units	2003-04

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

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

2. CASH AND CASH WITH FISCAL AGENT

a. Cash in Bank and Concentration Risk

The amounts reflected as cash in the balance sheet represents the individual funds' equity in pooled cash balance.

The Municipality maintains its cash accounts in one bank located in Puerto Rico. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The following is a summary of the total insured by collateral provided by bank and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

	<u>Total</u>	<u>Insured by FDIC</u>	<u>Insured by Collateral in Treasury Department</u>
Banco Popular de Puerto Rico	<u>\$1,474,520</u>	<u>\$100,000</u>	<u>\$1,374,520</u>

b. Cash with Fiscal Agent

An additional special tax of 1.25% of the assessed value of all real and personal properties are levied by the Municipality. The proceeds of said tax are required to be credited to the Debt Service Fund for payment of General Obligation Bonds and Notes of the Municipality. The property taxes are collected by the Municipal Revenues Collection Center as agent for the Municipality and are retained by the Government Development Bank for debt service purposes. At June 30, 2002, the balance of cash retained by the Government Development Bank amounted to \$512,070.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2002, the balance of cash retained by the Government Bank available for the acquisition of real property amounted to \$1,588,142.

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

3. PROPERTY TAXES

The Municipal Revenues Collection Center of the Commonwealth of Puerto Rico (CRIM) 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 Municipal Revenues Collection Center by May 15 of each year. The tax on real property is assessed by the Municipal Revenues Collection Center. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the 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 7.88% for real property and 5.88% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	5.80%	3.80%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discount made by state to taxpayer	< .20% >	< .20% >
Total	<u>7.88%</u>	<u>5.88%</u>

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

The "Additional special property tax - municipal" is restricted for debt service and retained by the Government Development Bank for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the Municipal Revenues Collection Center and reported to the Municipality.

The "Additional special property tax - state" is collected by the Municipal Revenue Collection Center 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 the Treasury assumes payment of the basic tax to the Municipality, except for property assessed of 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 Municipal Revenues Collection Center.

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.

The Municipal Revenues Collection Center advances to the Municipality an estimated amount of the basic property tax levied on nonexempt property for each fiscal year. Advances are repaid through actual collections from the taxpayers. The Municipal Revenues Collection Center periodically informs the Municipality of the amounts collected and applied to outstanding advances. The basic property tax advanced by the Municipal Revenues Collection Center (nonexempt) is recorded as other financing sources in the Municipality's General Fund and as an obligation in the General Fund. To the extent that such taxes are collected and informed by the Municipal Revenues Collection Center, they are recorded in the General Fund as revenue and as due to the Municipal Revenues Collection Center.

On January 26, 2000, Public Law 42 was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 10 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 1999-2000. The amount that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the central government to the municipalities are assigned through this law to repay such

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

loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. The total advances from CRIM presented in the general long-term debt account group amounted to \$858,336 which will be paid commencing on July 1, 2002 through property taxes advances.

4. MUNICIPAL LICENSE TAX

Municipal License Tax receivables are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2002. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Ceiba, 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. The rates of municipal license in the Municipality of Ceiba are as follows:

Savings and loans associations	=	1.50%
Financing institution	=	1.50%
Other organizations:		
\$5,000 to \$70,000	=	.35%
\$70,001 to \$100,000	=	.40%
Over \$100,000	=	.45%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year \$359,854, corresponding to the next fiscal year municipal license.

5. INTERGOVERNMENTAL REVENUES

Intergovernmental revenue sources consist of contributions received from certain quasi-public corporations of the Government of Puerto Rico, such as the Puerto Rico Water and Sewer Authority, the Puerto Rico Electric Power Authority and from certain federal agencies, such as U.S. Department of H.U.D., U.S. Department of Health and Human Services and U.S. Department of Labor.

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

6. GENERAL FIXED ASSETS

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures of the various governmental funds and capitalized at cost, or, if donated, at their estimated fair market value at time of contribution in general fixed assets accounts group. Maintenance, repairs and minor renewals are expended as incurred. Asset dispositions and retirements are informed monthly to the Department of Treasury and written-off after authorization of that department. Depreciation is not provided on general fixed assets. Public domain or infrastructure, such as roads, streets, gutter, curbs, sidewalks, and drainage, is not recorded in this group of accounts. The Municipality has not maintained adequate records for its Fixed Assets, and management was not able to make an assertion as to the completeness of the General Fixed Assets Account Group. However, the Finance Department at present is in the process of updating these records in order to maintain a proper system in the future.

The Municipality's management has estimated its real property and other fixed assets as follows:

Real property, vehicles, equipment, and furniture	\$ 8,875,786
Vehicles, equipment, and furniture	<u>1,594,615</u>
Total general fixed assets	<u>\$10,470,401</u>

7. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Puerto Rico Electric Power Authority	\$465,672	\$ -	\$465,672
CRIM	83,757	-	83,757
SBGP Program	<u>-</u>	<u>90,697</u>	<u>90,697</u>
	<u>\$549,429</u>	<u>\$90,697</u>	<u>\$640,126</u>

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

8. DUE TO OTHER AGENCIES

The composition of this account is as follows:

	<u>General Fund</u>
Puerto Rico Water and Sewer Authority	\$ 44,649
Puerto Rico Electric Power Authority	395,001
General Service Administration	18,576
Retirement System	18,203
Internal Revenue Services	127,952
Puerto Rico Telephone Company	63,440
Puerto Rico Labor Department	<u>48,865</u>
	<u>\$716,686</u>

9. GENERAL LONG-TERM DEBTS

The general long-term debts' transactions as of June 30, 2002 are as follows:

Balance July 1, 2001	\$2,866,909
Additions for the year	1,340,000
Payments	(236,100)
Adjustments	(<u>53,203</u>)
Balance June 30, 2002	<u>\$3,917,606</u>

General long-term debt obligations at June 30, 2002 are as follows:

Bonds

\$1,060,000 series of 1999, payable in annual installments of \$30,000 to \$125,000 until July 1, 2012, interest at 8%.	\$ 930,000
\$130,000 series of 2000, payable in annual installments of \$5,000 to \$15,000 until January 1, 2014, interest at 7.5%.	120,000

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

\$175,000 series of 1994, payable in annual installments of \$4,000 to \$12,000 until January 1, 2017, interest at 5%.	\$ 135,000
\$115,000 series of 2000, payable in annual installments of \$20,000 to \$25,000 until July 1, 2004, interest from 7.29% to 7.50%.	75,000
\$65,000 series of 2001, payable in annual installments of \$10,000 to \$15,000 until July 1, 2005, interest from 5.88% to 8%.	55,000
\$200,000 series of 1998, payable in annual installments of \$15,000 to \$30,000 until July 1, 2007, interest from 6.71% to 8%.	140,000
\$270,000 series of 2002, payable in annual installments of \$5,000 to \$25,000 until July 1, 2006, interest at 8%.	270,000
\$855,000 series of 2002, payable in annual installments of \$15,000 to \$65,000 until July 1, 2026, interest at 6.5%.	855,000
\$185,000 series of 2002, payable in annual installments of \$20,000 to \$30,000 until July 1, 2008, interest at 6.5%.	185,000
\$30,000 series of 2002, payable in annual installments of \$2,200 to \$3,900 until July 1, 2011, interest at 6.5%.	<u>27,800</u>
	<u>2,792,800</u>
 <u>Property tax</u>	
Property tax advance 1997-98 (Refer to Note 16)	\$ 465,831
Property tax advance 1998-99 (Refer to Note 16)	392,505

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

Property tax advance prior year payable in annual installments of \$25,726 until September 1, 2010.	\$ <u>205,812</u>
	<u>1,064,148</u>

Other

Payment plan 1999-2000, Department of Labor, started with an initial payment of \$18,428 and thirty-six (36) monthly installments of \$3,086 until 2004.	<u>60,658</u>
	<u>\$3,917,606</u>

The annual requirements for the amortization of general long-terms at June 30, 2002, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2003	\$ 231,172
2004	245,496
2005	222,270
2006	213,203
2007	215,081
2008-2012	975,720
2013-2017	534,333
2018-2022	426,261
2023-2027	<u>854,070</u>
	<u>\$3,917,606</u>

As described in Note 3, the Municipality levies an annual special tax of 1.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the Government Development Bank.

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

Due to Puerto Rico Health Insurance Administration

Due to the Puerto Rico Health Insurance Administration represents the municipal contribution related to the Health Care Reform corresponding to the period from December 1, 1995 through June 30, 1997. This balance will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.

10. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the General 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 System 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 retirements 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.

The Systems provides retirement, 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 of members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

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

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

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

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

b. Contribution Requirements

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 and contributions actually made for the year ended June 30, 2000 was \$224,847. The Municipality's payroll for employees covered by ESR was \$2,424,226. The Municipality total payroll for all employees was \$3,341,199.

Additional information of ERS is presented in its financial statements for the year ended June 30, 2002, a copy of which can be obtained from ERS, Minillas Station, PO Box 43002, San Juan, PR 00940.

11. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believed that any required reimbursements would not be material.

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

- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and counsels believe that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

12. COMMITMENTS

The Municipality of Ceiba had several outstanding or planned construction projects as of June 30, 2002. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amount to \$417,303.

13. LEASES

Leasing arrangements with the Municipality as lessor are as follows:

- a. The Municipality leases spaces in the Transportation Center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2002 was approximately \$15,140.
- c. The Municipality retains title to its leased property. The lessee pays taxes, municipal license taxes, insurance, and maintenance costs of the leased assets.

Leasing arrangement with the Municipality as lessee:

The Municipality is obligated under noncancellable operational leases, with periods not longer than one year.

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

14. BUDGETARY COMPARISONS

As described in Note 1, the statement of revenues and expenditures-budget and actual was prepared in accordance with the budgetary basis. This method is not in accordance in some aspects with accounting principles generally accepted in the United States of America (GAAP).

The principal difference between budgetary basis and GAAP, are as follows:

- a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of the fund balance.
- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by GAAP.
- c. Under GAAP, the collection of property taxes through Municipal Revenue Collection Center is recorded as revenue and at the same time, such amount is recorded as expenditure and applied to previously advanced taxes when they are notified to the Municipality. In the budgetary basis, said revenues are recorded as revenues when the advances are received.

The necessary adjustments to reconcile the revenues and expenditures at the end of the year from the GAAP to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
GAAP basis	\$9,451,252	\$9,164,523
Plus current year encumbrances recorded as expenditures on the budgetary basis	-	46,182
Less prior year encumbrances recorded as expenditures on the GAAP basis	-	(78,160)

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

	<u>Revenues</u>	<u>Expenditures</u>
Plus advances of property taxes recorded as revenue on the budgetary basis	\$ 521,781	\$ -
Plus transfer in/out	105,823	130,778
Less collection of property taxes (not exonerated), recorded previously as revenue by the Municipality when received and deducted from the advances payable to the Treasury Department	(521,781)	(521,781)
Less other funds not recorded on budgetary basis	(<u>3,506,707</u>)	(<u>2,933,655</u>)
Budgetary basis	<u>\$6,050,368</u>	<u>\$5,807,889</u>

The budget prepared for each of the special revenue funds is based on a program period which is not necessarily the same fiscal year of the Municipality. Accordingly, it is not practical to present an annual comparison of budget and actual for the Special Revenue Fund.

The Municipality budget is amended by the majority vote of the Municipal Assembly. Said amendments are included in the budgetary basis.

15. MUNICIPAL SOLID WASTE LANDFILL CLOSURE

The Municipality discontinued the operation and ceased to accept solid waste in 1993 in the landfill. State and Federal laws and regulations require the Municipality to perform certain closure and postclosure procedures and establish monitoring and maintenance functions at the landfill site for thirty years after closure.

In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost", the Municipality should perform a study of the activities that need to be implanted at the Municipality's landfill to comply with applicable state and federal regulations and to determine an estimate of postclosure costs. As of June 30, 2002, the Municipality recognized \$447,726 as the

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

estimated current cost for landfill closure as of June 30, 2002. No amount has been estimated as postclosure cost of the landfill to be accounted for as required by accounting principles generally accepted in the United States of America.

16. SUBSEQUENT EVENT

On July 1, 2002, the Municipality entered into a loan agreement of approximately \$858,336 with GDB. The proceeds of the loan were used to cancel the outstanding balance of advances from CRIM as enacted by Public Law 42 (refer to Note 9). The loan has a fixed interest rate of 6.1875% payable annually. The loan matures on July 1, 2031.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor Pass/Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct Programs		
Section 8 Vouchers	14.855	\$ 176,491
Pass-through Commonwealth of Puerto Rico/ Commissions Office of Municipal Affairs Community Development Block Grant-States Program		
SBGP	14.228	816,321
Housing Preservation Grant	14.235	720
Pass-through Municipality of San Juan, Department of Housing: Housing Opportunity for persons with AIDS Programs	14.241	<u>13,878</u>
Subtotal U.S. HUD		<u>1,007,410</u>
U.S. Federal Emergency Management Agency Public Assistance Grants (FEMA)		
Disaster Assistance	83.545	<u>63,385</u>
Subtotal U.S. FEMA		<u>63,385</u>
U.S. Department of Health of Human Services (HHS)		
Pass-through Regional Elderly Office Special Program for Aging, Title III, Part C	93.045	<u>102,050</u>
Subtotal U. S. Department of HHS		<u>102,050</u>
TOTAL		<u>\$1,172,845</u>



ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT
OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor
and Municipal Assembly
Municipality of Ceiba
Ceiba, Puerto Rico

We have audited the financial statements of the Municipality of Ceiba as of and for the year ended June 30, 2002, and have issued our report thereon dated December 10, 2002, which was qualified because insufficient audit evidence exists to support Municipality of Ceiba' disclosures with respect to the general fixed assets balances. Except as discussed in the preceding sentence, 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.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Ceiba' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Municipality of Ceiba' ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of reportable conditions and recommendations as items 1 and 2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all matters reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Municipality of Ceiba, in a separate letter dated December 10, 2002.

This report is intended solely for the information and use of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

San Juan, Puerto Rico
December 10, 2002

The stamp 1847807 was affixed to the original of this report



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. ACCOUNTING SYSTEM

We noted that the Municipality of Ceiba is not keeping an accounting system as required by General Accepted Accounting Principles at present time, the Municipality records the transactions in the general, capital project and special funds. These funds are kept under the cash basis method. Also, the system used to record the purchase orders and contracts are not adequate; because does not provide for a segregation between the account payable and the encumbrances. In order to prepare the combined financial statements, we realized several adjusting entries to convert them to a modified accrual basis of accounting.

Recommendation

We recommend the Municipality of Ceiba that in coordination with the Municipal Revenue Collection Center and the Commissioner Office of Municipal Affairs, implement an accounting system which should provide the following.

That the Municipality's operations are accounted for through several separate funds and account groups, accounting in each of them the related assets, liabilities, and equity and other balances. The individual funds should be summarized in a combined financial statements by fund category. The Municipality should use the general purpose financial statements based on the following fund and accounts groups:

a. Governmental Funds

Governmental funds are used to finance most of the governmental functions. The sources and uses of resources available are systematically registered through the statement of changes in fund balances and not through the determination of net income. The different types of governmental funds are as follows:

1) General

This is the operational fund for the Municipality. It accounts for all financial resources except those required to be accounted for in another funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

2) Special revenue

Is used to account for the proceeds of specific revenue sources (other than expendable trust or mayor capital projects) that are legally restricted for expenditure for specified purposes.

3) Debt service

Is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest and related costs.

4) Capital project

Is used to account for financial resources to be used for the construction or acquisition of major capital facilities (other than those financed by proprietary and trust funds).

The resources that come from bonds and notes are registered as other financial resources in the Capital Project Funds. The expenditures related to the projects are incurred after the bonds and note issuances.

So, the Capital Project Funds can reflect an excess of expenditures over revenues and other resources.

b. Proprietary Fund

Is used to account for operations financed and operated similar to business, whose main objective is the determination of net income. The main objective of this type of fund is to match income with expenses and deriving profits. Depreciation accounts are also used in this type of fund.

c. Trust and Agency Fund

Is used to account for assets held by the Municipality Agency, in the trustee's capacity or as agent whose main responsibility is to ascertain that those assets are disposed of as prescribed by the individual or other governmental unit.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

d. Account Groups

Accounts groups are not funds. The same should be used to establish accounting controls and to account for General Fixed Assets and General Long-term Debt.

1) General Fixed Assets accounts group

Is used to provide accounting over general fixed assets, except those already recorded in the proprietary and Trust Funds.

2) General Long-term Debt accounts group

Is used to provide accounting control over General Municipal Long-term Debt; except those accounted in the Proprietary and Trust Funds.

The Municipality's accounting system should provide for the segregation of the encumbrances from accounts payable. Encumbrances represent commitments related with a service to be received or a good to be acquired. This amount should be accumulated in an account named Fund Balance Reserved for Encumbrances at the time the purchase order is issued. The amount of Encumbrances should be reserved for each fund balance since no bilateral agreement exists. The accounts payable and accrued expenses should be recorded when the debt is incurred and the amount is determinable.

2. FIXED ASSETS

The Municipality does not have an effective system to account for fixed assets. There are no controls in place to assure that all property expenditures which should be capitalized or property dispositions are recorded in the fixed assets subsidiary ledger. Procedures are not in place to require that real property acquired with federal and local funds be recorded in the property subsidiary ledger or that any property sales and dispositions be accounted for in the fixed assets subsidiary ledger.

This condition occurs because there are no established procedures to prepare the adjustments necessary to record these transactions in the fixed assets subsidiary ledger.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Article 8.013 of the Municipalities Law and Chapter VII of the Basic Standards establish that the Municipality shall be responsible to safeguard and be accountable for its fixed assets (both real and personal property).

Chapter VII, Sections 3, 4, 14, 15 and 21 of the Basic Standards, establishes the following guidelines regarding property management:

Section 3 establishes that the Finance Director is responsible for the accountability of the capital assets acquired by the Municipality through purchases or donations.

Section 4 establishes that the Municipality Property Administrator shall be responsible to the Mayor and the Finance Director for the direct administration, use and maintenance of the entire real and personal property owned by the Municipality.

Section 14(1) establishes that all Municipal property shall be numbered and identified as to ownership by the Property Department Director.

Section 15(1) establishes that the Property Department Director is responsible for accurately maintaining the central property records.

Section 21(c) establishes that management shall write-off from the property records all property and equipment sold or disposed of when certified by the Internal Auditor of the Municipality upon determination that such disposal is adequate.

The continued failure to have accurate and complete property records has resulted in a disclaimer with respect to the general fixed assets account group. Under the requirements of Statement 34 this can result in a disclaimer of opinion of the entity wide statements. Furthermore, this situation represents a significant risk of loss of property and equipment because there is a lack of accountability for acquired assets. The value of federally funded property that may be lost would need to be repaid to the federal government with local funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Recommendation

The Property Division must require each division that acquires property and equipment to submit a report including a full description of the asset, location, use, responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other than the users, and through public announcement or bids.

The Accounting Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with that recorded in the control account. In addition, the subsidiary ledger shall be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal funds offices, such as Head Start, and Housing and Urban Development (HUD).



ORTIZ, RODRIGUEZ, RIVERA & CO.
CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis O. Rivera Zúñiga

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor
and Municipal Assembly
Municipality of Ceiba
Ceiba, Puerto Rico

Compliance

We have audited the compliance of Municipality of Ceiba with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Municipality of Ceiba's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Ceiba's management. Our responsibility is to express and opinion on Municipality of Ceiba's compliance based on our audit.

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

In our opinion, Municipality of Ceiba complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as conditions numbers 01-1 to 01-2.

Internal Control over Compliance

The management of Municipality of Ceiba is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Ceiba's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, Commissioner Office of Municipal Affairs, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these parties.

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
December 10, 2002

The stamp 1847808 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a qualified opinion on the financial statements of the Municipality of Ceiba.
- b. There were reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Ceiba were disclosed during the audit.
- d. There were no reportable conditions on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Ceiba express an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Ceiba are reported in number 3 of this schedule.
- g. The programs tested as major programs included:

SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Ceiba was determined to be a high-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

See Schedule of Reportable Conditions and Recommendations on pages 32 to 35.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.228	<p>Condition 02-1</p> <p>The Municipality' internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p> <p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient shall adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p> <p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p> <p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
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Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disburse immediately after receipt, or within three (3) business days.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA No. 14.228	Condition 00-1 The program did not comply with the procedures require for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees.	Condition still prevails.
Section 8 Vouchers CFDA No. 14.855	Condition 00-2 During our examination of reporting requirements procedures, we noted that the program does not submit on time the HUD-52681, Voucher for Payment of Annual Contributions and Operating Statement and the HUD 52595, Balance Sheet for Section 8 and Public Housing.	Condition was corrected.

EXHIBIT I

CORRECTIVE ACTION PLAN

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562



ESTADO LIBRE ASOCIADO DE PUERTO RICO

Gobierno Municipal de Ceiba

Oficina del Director de Finanzas
Apartado 224, Ceiba, P.R. 00735

CORRECTIVE ACTION PLAN

December 10, 2002

Cognizant or Oversight Agency for Audit:

Municipality of Ceiba respectfully submits the following corrective action plan for the year ended June 30, 2002

Name and address of independent public accounting firm: Ortiz, Rodríguez, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2002

The findings from the June 30, 2002 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding 02-1: SBGP- CFDA 14.228

Reportable Condition: See Condition 02-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disburse immediately after receipt, or within three (3) business days.

Action Taken

The Municipality will establish procedures to coordinate efficiently the request of funds and disbursements within the maximum period established. Also, the documentation will be updated to avoid the delay in disbursements after received the funds.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Johanna Reyes at (787) 885-2180.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'JR', with a long horizontal line extending to the right.

Johanna Reyes
Finance Director