

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE LOIZA

AUDITORIA 2000-01

30 DE JUNIO DE 2001

OFIC. DEL COMANDANTE
DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA**

**SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2001**

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DIVISION DE
REGULACION Y
EMERGENCIAS

ORTIZ, RODRIGUEZ, RIVERA & CO.

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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MUNICIPALITY OF LOÍZA
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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Services Division

INDEPENDENT AUDITORS' REPORT

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

We were engaged to audit the accompanying general purpose financial statements of the Municipality of Loíza, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management.

The Municipality did not keep adequate accounting records for the fiscal year under audit, and the accounting records did not contain all the information required to prepare the general purpose financial statements. Such information was obtained from different sources, therefore, the accompanying financial statements may not reflect all of the Municipality's assets, liabilities, revenues and expenditures.

As described in Note 6 to the general purpose financial statements, the Municipality 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 ourselves as to the fixed asset balance or such amount group amounting to \$13,955,717.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on these general purpose financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 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.

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, on pages 28 and 29 is not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because the Municipality did not kept adequate accounting records for the fiscal year under audit.

Ortiz, Rodriguez, Rivera & Co.

San Juan, Puerto Rico
April 29, 2002

The stamp 1812044 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

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; including certificates of deposits of \$21,100 (Note 2)	\$ 1,277,404	\$ 669,499	\$ -	\$ 1,362,755	\$ -	\$ -	\$ 3,309,658
Cash with fiscal agent (Note 2)			1,389,509	2,067,779			3,457,288
Accounts receivables:							
Due from other agencies (Note 7)	594,556	141,744					736,300
Due from other funds (Note 8)	97,416	287,571		144,738			529,725
Property and equipment (Note 6)		4,369			13,955,717		13,960,086
Amount available in debt service fund (Note 2)						1,389,509	1,389,509
Amount to be provided for retirement of general long-term debt (Note 12)						3,135,674	3,135,674
Amount to be provided for payment of accrued vacation and sick leave (Note 1)						490,377	490,377
Total assets	\$ 1,969,376	\$ 1,103,183	\$ 1,389,509	\$ 3,575,272	\$ 13,955,717	\$ 5,015,560	\$ 27,008,617

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
COMBINED BALANCE SHEET-ALL FUNDS TYPES AND ACCOUNT GROUPS (CONTINUED)
JUNE 30, 2001**

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	\$ 851,224	\$ 367,988	\$ -	\$ 215,865	\$ -	\$ -	\$ 1,435,077
Deposits payables	263,435						263,435
Due to other funds (Note 8)	272,503	191,806		65,416			529,725
Due to other agencies (Note 9)	783,342						783,342
Deferred revenues (Note 4)	221,185	305,208					526,393
Accrued vacations and sick leave (Note 1)						490,377	490,377
General long-term debts (Note 10)						4,505,183	4,505,183
Claims and judgements						20,000	20,000
Total liabilities	2,391,689	865,002	-	281,281	-	5,015,560	8,553,532
Commitments and Contingencies (Notes 12, 13 and 14)							
Fund Equity (Deficit)							
Investment in general fixed assets					13,955,717		13,955,717
Fund balance							
Reserved for encumbrances	444,731						444,731
Reserved for debt service			1,389,509				1,389,509
Designated for capital additions				3,293,991			3,293,991
Undesignated (deficit) equity	(867,044)	238,181					(628,863)
Total fund equity (deficit)	(422,313)	238,181	1,389,509	3,293,991	13,955,717	-	18,455,085
Total liabilities and fund equity (deficit)	\$1,969,376	\$ 1,103,183	\$1,389,509	\$3,575,272	\$13,955,717	\$ 5,015,560	\$27,008,617

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES-ALL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
REVENUES					
Property taxes (Note 3)	\$ 899,898	\$ -	\$ 344,305	\$ -	\$ 1,244,203
Municipal license taxes (Note 4)	371,008				371,008
Licenses and permits	436,879				436,879
Charges for service and rents	90,553				90,553
Inter-governmental revenues (Note 5):					
Federal grants and contributions		1,459,305			1,459,305
State contributions	5,704,713	556,866		1,894,990	8,156,569
Interest, fines, and penalties	121,389		69,178		190,567
Other revenues	163,398				163,398
Total revenues	<u>7,787,838</u>	<u>2,016,171</u>	<u>413,483</u>	<u>1,894,990</u>	<u>12,112,482</u>
EXPENDITURES					
Municipal council	176,497				176,497
Offices:					
Administrative Services	14,561				14,561
Mayor	2,371,133				2,371,133
Departments:					
Civil Defense	521,456				521,456
Finance	2,497,580				2,497,580
Health	915				915
Public Works	767,754	1,270,523			2,038,277
Transportation and Sanitation	1,102,636				1,102,636
Recreation	299,895				299,895
Personnel	139,161				139,161
Capital outlays				2,111,321	2,111,321
Collection of property taxes applied to advances (Note 15)	474,044				474,044
General Government	69,911				69,911
Welfare		679,650			679,650

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES-ALL FUND TYPES (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Total
	General	Special Revenue	Debt Service	Capital Projects	Memorandum
Debt service:					
Principal retirement (Note 10)	\$ -	\$ -	\$ 215,857	\$ -	\$ 215,857
Interest payments (Note 10)			134,330		134,330
Total expenditures	<u>8,435,543</u>	<u>1,950,173</u>	<u>350,187</u>	<u>2,111,321</u>	<u>12,847,224</u>
Excess (deficiency) of revenues over expenditures	<u>(647,705)</u>	<u>65,998</u>	<u>63,296</u>	<u>(216,331)</u>	<u>(734,742)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt				2,070,000	2,070,000
Advances of property taxes (Note 3)	474,044				474,044
Operating transfer-in	70,979		210,754		281,733
Operating transfer-out	(210,754)		(70,979)		(281,733)
Total other financing sources (uses)	<u>334,269</u>	<u>-</u>	<u>139,775</u>	<u>2,070,000</u>	<u>2,544,044</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(313,436)</u>	<u>65,998</u>	<u>203,071</u>	<u>1,853,669</u>	<u>1,809,302</u>
FUND BALANCE (DEFICIENCY) AT BEGINNING OF YEAR	<u>(108,877)</u>	<u>172,183</u>	<u>1,186,438</u>	<u>1,440,322</u>	<u>2,690,066</u>
FUND BALANCE (DEFICIENCY) AT END OF YEAR	<u>\$ (422,313)</u>	<u>\$ 238,181</u>	<u>\$1,389,509</u>	<u>\$ 3,293,991</u>	<u>\$ 4,499,368</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	General Fund			Debt Service Fund		
	Budget Amended	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES (Notes 1 and 15)						
Property taxes	\$ 899,898	\$ 899,898	\$ -	\$ 241,343	\$ 344,305	\$ 102,962
Municipal license taxes	300,000	371,008	71,008			
Licenses and permits	301,000	436,879	135,879			
Charges for service and rents	110,000	90,553	(19,447)			
Intergovernmental revenues:						
State contributions	5,536,016	5,704,713	168,697			
Interest, fines, and penalties	42,000	192,368	150,368		69,178	69,178
Other revenues	1,477,966	93,378	(1,384,588)			
Total revenues	<u>8,666,880</u>	<u>7,788,797</u>	<u>(878,083)</u>	<u>241,343</u>	<u>413,483</u>	<u>172,140</u>
EXPENDITURES (Notes 1 and 15)						
Municipal council	185,977	176,497	9,480			
Offices:						
Administrative Services	18,230	14,561	3,669			
Mayor	2,403,330	2,371,133	32,197			
Departments:						
Civil Defense	529,486	521,456	8,030			
Finance	3,125,731	3,016,560	109,171			
Health	915	915	-			
Public Works	792,373	767,754	24,619			
Sanitation	1,161,194	1,102,636	58,558			
Recreation	305,448	299,895	5,553			
Personnel	144,196	139,161	5,035			
Debt service; principal and interest payment		-	-	241,343	210,412	30,931
Total expenditures	<u>8,666,880</u>	<u>8,410,568</u>	<u>256,312</u>	<u>241,343</u>	<u>210,412</u>	<u>30,931</u>
Excess of revenues over expenditures (expenditures over revenues)	<u>\$ -</u>	<u>\$ (621,771)</u>	<u>\$ (621,771)</u>	<u>\$ -</u>	<u>\$ 203,071</u>	<u>\$ 203,071</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Municipality of Loíza, Puerto Rico (Municipality) was founded in 1719. 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 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 more 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 LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 Fund

i. General Fund

The General fund is the 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 Funds

Debt service funds are 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 LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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.

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 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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 Funds 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 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 Loíza indicate that the reporting entity consists of all funds and accounts groups included in the combined balance sheet, therefore, no organizations, activities or functions were excluded from the reporting entity.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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.

2. CASH AND SHORT-TERM INVESTMENTS

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. Short-term investments consist of certificates of deposit.

The Municipality maintains its cash accounts in three banks 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.

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, 2001, the balance of cash retained by the Government Development Bank amounted to \$1,389,509.

The bond issued by the Municipality is administrated by the Government Development Bank with a method of escrow system. At June 30, 2001, the balance of cash retained by the Government Development Bank available for the acquisition of real property and federal program amounted to \$2,067,779.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 8.08% for real property and 6.08% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
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>8.08%</u>	 <u>6.08%</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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.

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, 2001. 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 Loíza, 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 Loíza are as follows:

Savings and loans associations	=	1.00%
Financing institution	=	1.50%
Other organizations	=	.50%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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 \$221,185, 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 Water and Sewer Authority, the 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.

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 the 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	\$ 8,931,341
Vehicles, equipment, and furniture	<u>5,024,376</u>
Total general fixed assets	<u>\$13,955,717</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

7. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Total</u>
Electric Power Authority	\$585,524	\$ -	\$585,524
EDA	-	27,625	27,625
SBGP	-	114,119	114,119
State Insurance Fund Corporation	<u>9,032</u>	<u>-</u>	<u>9,032</u>
 Total	 <u>\$594,556</u>	 <u>\$141,744</u>	 <u>\$736,300</u>

8. DUE FROM (TO) OTHER FUNDS

Represents the amount due between funds. At the end of the fiscal period, the unpaid or unsettled amounts of these types of inter-fund transactions are reported as inter-fund receivables (due from) and inter-fund payable (due to) balances.

The due from and due to other fund balances as of June 30, 2001, are as follows:

	<u>Due from Other Fund</u>	<u>Due to Other Fund</u>
General Fund	\$ 97,416	\$272,503
Special Revenue Funds	287,571	191,806
Capital Project Funds	<u>144,738</u>	<u>65,416</u>
	<u>\$529,725</u>	<u>\$529,725</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

9. DUE TO OTHER AGENCIES

The composition of this account is as follows:

	<u>General Fund</u>
Water and Sewer Authority	\$ 66,060
Electric Power Authority	509,311
General Services Administration	27,595
Retirement System	37,073
Treasury Department	75,973
Puerto Rico Telephone Company	44,005
State Insurance Fund Corporation	<u>23,325</u>
	<u>\$783,342</u>

10. GENERAL LONG-TERM DEBT

The general long-term debts' transactions as of June 30, 2001 are as follows:

Balance July 1, 2000	\$1,826,667
Additions	2,070,000
Advances of property taxes	904,697
Payments	(215,857)
Other adjustments	(<u>80,324</u>)
Balance June 30, 2001	<u>\$4,505,183</u>

General long-term debt obligations at June 30, 2001 are as follows:

Bonds

\$451,000 series of 1993, payable in annual installments of \$10,000 to \$32,000 until January 1, 2016, interest at 5%.	\$ 350,000
\$80,000 series of 1988, payable in annual installments of \$5,000 to \$10,000 until July 1, 2003, interest from 3.26% to 9.5%.	20,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

\$100,000 series of 1996, payable in annual installments of \$3,000 to \$8,000 until January 1, 2015, interest at 4.5%.	\$ 81,000
\$385,000 series of 1999, payable in annual installments of \$40,000 to \$70,000 until July 1, 2007, interest from 7.81% to 8%.	385,000
\$1,685,000 series of 1999, payable in annual installments of \$30,000 to \$150,000 until July 1, 2023, interest from 5.88% to 8%.	<u>1,685,000</u> <u>2,521,000</u>

Notes Payable

\$870,000 general obligation of 1987, payable in annual installments of \$15,000 to \$90,000 until July 1, 2006, interest at 8.5%.	424,167
\$400,000 special obligation of 1997, payable in annual installments of \$10,000 to \$40,000 until July 1, 2016, interest at 6.75%.	<u>355,000</u> <u>779,167</u>

Other

Due to the Department of Labor for the concept of unemployment. The payment includes a first installment of \$30,293 and 36 monthly installments of \$3,989.	46,967
Due to the Department of Treasury for the concept of property tax advances, payable in monthly installments of \$2,639 until 2009.	253,352
Property tax advance 2000-01	<u>904,697</u> <u>1,205,016</u>
	<u>\$4,505,183</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

The annual requirements for the amortization of general long-term debt at June 30, 2001, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2002	\$ 393,264
2003	404,264
2004	426,264
2005	416,608
2006	432,609
2007-2011	788,174
2012-2016	664,000
2017-2021	560,000
2022-2026	<u>420,000</u>
	<u>\$4,505,183</u>

As described in Note 3, the Municipality levies an additional 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 Municipal Revenues Collection Center as agent for the Municipality.

11. 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 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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 or members who have attained an age of 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 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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, 2001 was \$125,636 and \$123,750, respectively. The Municipality's payroll for employees covered by ERS was \$1,354,566. The Municipality total payroll for all employees was \$3,041,150.

Act number 1 dated February 16, 1990, made certain amendments applicable to new participants joining the System effective on April 1, 1990. Changes mainly consisted of an increase of the retirement age to 65 years, the elimination of the Merit Annuity and a reduction of the percentage for disability and death benefits.

c. Funding Status and Progress

The pension benefit obligation is a standardized disclosure measure of the present value of defined pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons with other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plans.

c. Contributions Made and Actuarial Computation

Contributions in 2001 and prior years were made based on percentages established by the law. Such percentages have not been based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to the Municipality as of June 30, 2001 has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contribution are not known.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

d. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Information on funding progress for the three last years is presented below:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net assets available for benefits as a percentage of total pension benefit obligation	N/A	N/A	N/A
Unfunded pension benefit obligation as a percentage of annual covered payroll	N/A	N/A	N/A
Employer contributions (not actuarial determined) as a percentage of annual covered payroll	9%	9%	9%

N/A = Not available

Trend information prior to 1999 is not available

12. 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 believes that any required reimbursements would not be material.
- 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 outside 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

13. COMMITMENTS

The Municipality of Loíza had several outstanding or planned construction projects as of June 30, 2001. These projects are evidenced by contractual commitments with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amounts to \$1,118,491.

14. 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, 2001 was approximately \$90,553.
- 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.

15. 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 generally accepted accounting principles.

The principal difference between budgetary basis and generally accepted accounting principles, are as follows:

- a. The encumbrances are recorded as expenditures in the budgetary basis instead of as a reserve of the fund balance.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

- b. The advances of property taxes are recorded as revenues in the budgetary basis instead as other financing sources, as required by accounting principles generally accepted in the United States of America.
- c. Under generally accepted accounting principles, 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 generally accepted accounting principles to budgetary basis, are as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Generally accepted accounting principles basis	\$7,787,838	\$8,435,543
Plus current year encumbrances recorded as expenditures on the budgetary basis	-	444,731
Less prior year encumbrances recorded as expenditures on the GAAP basis	-	(136,506)
Plus advances of property taxes recorded as revenue on the budgetary basis	474,044	-
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	(474,044)	(474,044)
Plus transfer in and transfer out	70,979	210,754
Less other funds not recorded on the budgetary basis	(<u>70,020</u>)	(<u>69,910</u>)
Budgetary basis	<u>\$7,788,797</u>	<u>\$8,410,568</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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.

16. SUBSEQUENT EVENT

The New Governmental Financial Reporting Model

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved the issuance of the long-awaited statement on the financial reporting model project. GASB No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," makes dramatic changes to the way state and local governments report their finances to the public. Issuance of the statement is the culmination of an extended due process period, including the issuance of a preliminary views document and exposure draft and conducting public hearings and focus groups.

Under the new reporting model, general purpose governments must present the following basic financial statements and required supplementary information (RSI) to be in accordance with generally accepted accounting principles:

- a. Management's discussion and analysis.
- b. Government-wide financial statements.
- c. Fund financial statements.
- d. Notes to the financial statements.
- e. RSI, including budgetary comparison schedules, infrastructure condition data, and other data required by previous GASB pronouncements, if applicable.

The Statement will first be effective for governments with annual revenues exceeding \$100 million for fiscal years beginning after June 15, 2001; for those with revenues of \$10 million to \$100 million, years beginning after June 15, 2002; and for those with revenues of less than \$10 million, years beginning after June 15, 2003.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct programs:		
Section 8-Rental Certificate Program Pass-through State - Commissioner Office of Municipal Affairs Community Development Block Grant-State Program SBGP	14.857	\$ 29,222
	14.228	<u>1,261,231</u>
Subtotal U.S. Department of HUD		<u>1,290,453</u>
U.S. Department of Agriculture		
Pass-through Education Department Child and Adult Care Food Program	10.558	123,579
Nutrition Assistance for Puerto Rico	10.566	18,788
Rural Housing Preservation Grant	10.433	<u>8,692</u>
Subtotal U.S. Department of Agriculture		<u>151,059</u>
Community Planning and Development		
Housing Opportunities for Persons with AIDS	14.241	<u>11,799</u>
Subtotal Community Planning and Development		<u>11,799</u>
U.S. Federal Emergency Management Agency Public Assistance Grants (FEMA)		
Pass-through Office of the Governor Authorized Representative: FEMA 1136-DR-PR Public Assistance Grant	83.544	<u>600</u>
Subtotal FEMA		<u>600</u>
TOTAL		<u><u>\$1,453,911</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Loíza's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

The expenditures of the schedule are included in the Municipality's general purpose financial statements within the Special Revenue. The reconciliation of expenditures in the general purpose financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Expenditures per general purpose financial statements:

Special Revenue Fund	\$1,950,173
Less non-federal expenditures	(<u>496,262</u>)
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$1,453,911</u>



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Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We were engaged to audit the general purpose financial statements of the Municipality of Loíza as of and for the year ended June 30, 2001, and have issued our report thereon dated April 29, 2002 which was a disclaimer because the Municipality did not keep adequate accounting records to prepare the General Purpose Financial Statements. 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 Loíza's 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 tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are in the schedule of reportable conditions and recommendations as items 1, 2 and 3. We also, noted certain immaterial instances of noncompliance that have reported to management of the Municipality of Loíza in a separate letter dated April 29, 2002.

Internal Control over Financial Reporting

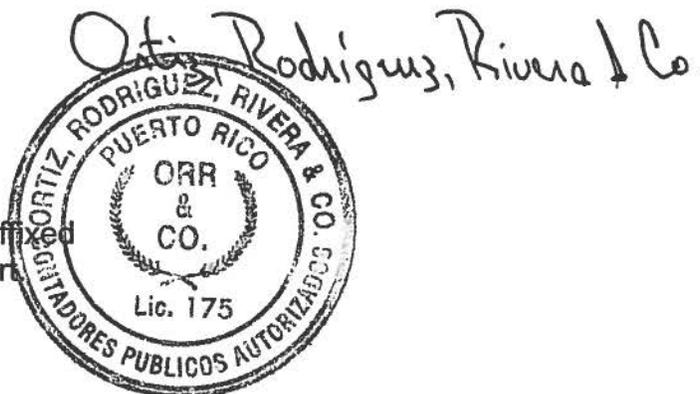
In planning and performing our audit, we considered Municipality of Loíza's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on general purpose financial statements and not to provide assurance on the internal control over 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 Loíza's 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, 2, and 3.

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 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 Loíza, in a separate letter dated April 29, 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
April 29, 2002

The stamp 1812045 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. ACCOUNTING SYSTEM

We noted that the Municipality of Loíza 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 Loiza that in coordination with the Municipal Revenue Collection Center and the Commissioner Office of Municipal Affairs, implement an accounting system which should provide that the Municipality's operations be 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 funds 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 LOÍZA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

2) Special revenue

Is used to account for the proceeds of specific revenue sources (other than expendable trust or major 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.

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, 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 LOÍZA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

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.

In addition, 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

During the audit we noted that:

- a. The additions to the property ledger had been recorded on a cash basis, instead on the accrual basis.
- b. There is no supervision process established in order to verify if each department keeps adequate control of the property that is under their responsibility.
- c. The Municipal does not maintain a proper record of personal property acquired with Municipal funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

- d. Expenditures for financing charges of issued long-term debts, and financing charges related to property, plant and equipment had not been recorded in the property ledger.
- e. There is no supervision process to verify if each department keeps adequate control of the inventory.
- f. A physical inventory was not taken at year end.

Recommendation

To improve the internal controls in the area of property, the following procedures should be implemented by the Property Custodian in coordination with the Finance Director:

- a. It is recommended to take a physical inventory once a year. Any discrepancies found should be investigated and proper action taken.
- b. The Department of Property must perform periodical surprise physical observations and/or verification of the related assets to determine their existence and condition.
- c. The Department of Property must record the expenditures for financing charges of issued long-term debts.
- d. It is recommended to reconcile periodically the expenditures recorded by the Finance Department and the amount recorded by the Department of Property. Any discrepancies found should be investigated.

3. LONG-TERM DEBTS

The Municipality does not keep a subsidiary of general long-term debts, and the balances of said debts are not being recorded in the general ledger.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF REPORTABLE CONDITIONS AND RECOMMENDATIONS
(CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Recommendation

We recommend the establishment of a subsidiary of General Long-Term Debts. The subsidiary should include the following information:

- a. Creditors name
- b. Type of debt (note, bond and others)
- c. Original amount
- d. Terms of the debt (interest, due date, monthly payments and others)
- e. Balance due

The subsidiary should provide columns to record each payment, date of the payment and balance due after the payment. The subsidiary should be balanced each month and reconciled with the control account in the general ledger.



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

CPA Orlando Luis Ortiz Cabrera
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Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

**INDEPENDENT AUDITOR'S 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 Loíza
Loíza, Puerto Rico

Compliance

We have audited the compliance of Municipality of Loíza 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, 2001. Municipality of Loíza's major federal programs are identified in the summary of auditor's 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 Loíza's management. Our responsibility is to express and opinion on Municipality of Loíza'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 Loíza'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 Loíza's compliance with those requirements.

In our opinion, Municipality of Loíza 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, 2001. However, the results of our auditing procedures closed 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 01-4.

Internal Control over Compliance

The management of Municipality of Loíza 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 Loíza'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 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
April 29, 2002

The stamp 1812046 was affixed
to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a disclaimer opinion on the financial statements of the Municipality of Loíza.
- b. There were reportable conditions on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Loíza 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 Loíza express an unqualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Loíza are reported in number 3 of this schedule.
- g. The programs tested as major programs included:
 - Community Development Block Grant - States Program - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Loíza was determined to be a high-risk audit.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

See Schedule of Reportable Conditions and Recommendation on pages 32 to 36.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

**3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM
AUDIT**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.228	<p>Condition 01-1</p> <p>The program finished the year with high balance in cash.</p> <p><u>Criteria</u></p> <p>Cash management required the program to obligate the funds before they are requested and use them in a maximum period of three days. Also, require that the program finish the month with a minimum balance of \$5,000 in cash.</p> <p><u>Cause</u></p> <p>The program requests funds in excess of its disbursements.</p> <p><u>Effect</u></p> <p>The program does not comply with cash management requirements.</p> <p><u>Recommendation</u></p> <p>We recommend that the program use the funds as they are requested.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.228	<p>Condition 01-2</p> <p>During our examination of Federal Financial Report, we noted that the program did not send on time the quarterly report ended September 30, 2000, program year 1999.</p> <p><u>Criteria</u></p> <p>Federal Regulations establish the reports should be send on a specific date.</p> <p><u>Cause</u></p> <p>The program does not process the financial information on time.</p> <p><u>Effect</u></p> <p>The program does not comply with the regulation of sending the reports on time.</p> <p><u>Recommendation</u></p> <p>The federal program should improve the process of complete the financial information, in order to prepare the reports and to ensure timely filing of federal reports.</p>	<p><u>\$ -0-</u></p>
SBGP CFDA No. 14.228	<p>Condition 01-3</p> <p>The interview of a contractor worker from the project to apply asphalt to the roads of the Municipality of Loíza was not observed by us.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Criteria</u></p> <p>Federal regulations establish that the required procedures or monitoring, thru the obtainment and review of contractors payrolls, interview of contractors workers and any other procedures available, should be made to comply with the requirements to the Davis Bacon Act in relation to minimum wages.</p> <p><u>Cause</u></p> <p>The program has not kept enough evidence of files to substantiate that an adequate monitoring is done to contractors to ascertain that they were complying with the requirements of the Davis Bacon Act. Also, misclassifications or failure to pay prevailing wages may occur.</p> <p><u>Effect</u></p> <p>The program does not comply with Davis Bacon Act requirements.</p> <p><u>Recommendation</u></p> <p>We recommend that the Municipality establish adequate procedures to review payrolls submitted by contractors, interview workers hired by contractors and establish any other procedures required to ascertain that contractors and subcontractors are paying the required wages.</p>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.228	<p>Condition 01-4</p> <p>A project contract from the project to apply asphalt to the roads of the Municipality of Loíza with an original contract amount of \$512,741.25 did not have the following clauses:</p> <ol style="list-style-type: none"> a. Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement. (All contracts in excess of \$10,000). b. Compliance with Executive Order 11246 of September 24, 1965 entitled "Equal Employment Opportunity," as amended by Executive Order 11375 of October 13, 1967 and as supplemented in Department of Labor regulations (41 CFR Part 60). (All construction contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees). c. Compliance with the Copeland "Anti-Kickback" Act (18 U.S.C. 874) as supplemented in Department of Labor regulations (29 CFR Part 3). (All contracts and subgrants for construction or repair). d. Compliance with the Davis-Bacon Act (40 U.S.C. 276a to a-7) as supplemented by Department of Labor regulations (29 CFR Part 5). (Construction contracts in excess of \$2,000 awarded by grantees and subgrantees 	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	when required by Federal grant program legislation).	
	e. Compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act (40 U.S.C. 327-330) as supplemented by Department of Labor regulations v (29 CFR Part 5). (Construction contracts awarded by grantees and subgrantees in excess of \$2,000, and in excess of \$2,500 for other contracts which involve the employment of mechanics or laborers).	
	f. Notice of awarding agency requirements and regulations pertaining to reporting.	
	g. Notice of awarding agency requirements and regulations pertaining to patent rights with respect to any discovery or invention which arises or is developed in the course of or under such contract.	
	h. Awarding agency requirements and regulations pertaining to copyrights and rights in data.	
	i. Access by the grantee, the subgrantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p>audit, examination, excerpts, and transcriptions.</p> <p>j. Retention of all required records for three years after grantees or subgrantees make final payments and all other pending matters are closed.</p> <p>k. Compliance with all applicable standards, orders, or requirements issued under section 306 of the Clear Air Act (42 U.S.C. 1857 (h)), section 508 of the Clean Water Act (33 U.S.C. 1368), Executive Order 11738, and Environmental Protection Agency regulations (40 CFR Part 15). (Contracts, subcontracts, and subgrants of amounts in excess of \$100,000).</p> <p>l. Mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation (Pub. L. 94-163, 89 Stat. 871).</p>	

Criteria

OMB Common Rule, Subpart A, Section 2 of the contract provisions requires that a grantees' and subgrantees' contracts must contain the clauses mentioned above.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Cause</u></p> <p>The program does not prepare the contracts with the clauses established by the OMB Common Rule.</p> <p><u>Effect</u></p> <p>The program does not comply with the procurement, suspension, and debarment requirements.</p> <p><u>Recommendation</u></p> <p>In accordance with Federal Regulations, the program should improve their procedures and assure that all the contracts will contain the provisions established by the OMB Common Rule.</p>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

The Municipality has not prior year findings.

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

G.P.O. Box 508

Loíza, Puerto Rico 00772

Teléfonos. 876-1040

876-3570

876-3536

Director de Finanzas

April 29, 2002

Cognizant or Oversight Agency for Audit:

Municipality of Loíza respectfully submits the following corrective action plan for the year ended June 30, 2001

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, 2001

The findings from the June 30, 2001 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 01-1: SBGP – CFDA 14.228

Reportable Condition: See Condition 01-1

Recommendation

The disbursements of funds should be made for not more than three days after received, in order to comply with the cash management requirement.

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.

" Loíza Capital de las Tradiciones "

Finding 01-2: SBGP – CFDA 14.228

Reportable Condition: See Condition 01-2

Recommendation

The federal program should improve the process of complete the financial information, in order to realize the reports and it will be sent on time.

Action Taken

The Municipality will obtain the services of a new personnel that their principal duties will be to improve and complete the financial information on time.

Finding 01-3: SBGP – CFDA 14.228

Reportable Condition: See Condition 01-3

Recommendation

We recommend that the Municipality establish adequate procedures to review payrolls submitted by contractors, interview workers hired by contractors and establish any other procedures required to ascertain that contractors and subcontractors are paying the required wages.

Action Taken

The Municipality will establish efficient procedures that will guarantee that an adequate monitoring is done to contractors to ascertain that they are complying with all the requirements.

Finding 01-4: SBGP – CFDA 14.228

Reportable Condition: See Condition 01-4

Recommendation

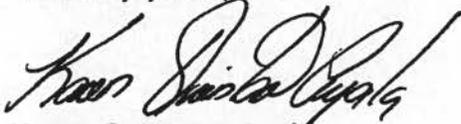
In accordance with Federal Regulations, the program should improve their procedures and assure that all the contracts will contain the provisions established by the OMB Common Rule.

Action Taken

The Municipality already has a model contract that will guarantee that the contracts will contain the provisions established by the OMB Common Rule.

If the Cognizant or Oversight Agency for Audit has questions regarding the plan, please call CPA Karen Quintana Ayala, Finance Director, at (787) 256-1525.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Karen Quintana Ayala". The signature is fluid and cursive, with a long horizontal stroke at the end.

Karen Quintana Ayala
Finance Director