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AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE LOIZA
AUDITORIA 2002-2003

30 DE JUNIO DE 2003

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DE ASUNTOS MUNICIPALES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

ORTIZ, RODRIGUEZ, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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Services Division

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, discretely component unit, each major fund and the aggregate remaining fund information of the Municipality of Loíza, as of and for the year ended June 30, 2003, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Brisas de Loíza Project, as of June 30, 2003. Those financial statements were audited by other auditors whose report thereon has been furnished to, and our opinion, insofar as it relates to the amounts included for Brisas de Loíza Project, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the Municipality of Loíza as of June 30, 2003, and the respective changes in financial position, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Municipality has implemented a new financial reporting model, as required by the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for States and Local Government."

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2003 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

San Juan, Puerto Rico
November 14, 2003



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the *Municipality of Loiza* of the Commonwealth of Puerto Rico (the "Municipality") provides this *Management's Discussion and Analysis* of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended **June 30, 2003**. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality's in the Governmental Activities has reported assets and net assets amounting to **\$10,712,025** and **\$826,342** respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets (pending for the property final costs) amounting to **\$6,510,128 (60 percent of total Municipality's assets)**.
- The Municipality in the same activities has reported total liabilities amounting to **\$9,885,683** in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to **\$6,276,404 (63 percent of total liabilities)**.
- The Municipality has reported total revenues amounting to **\$11,844,066** in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds, for the Fiscal Year Ended **June 30, 2003**. The most significant revenues amounting in this statement are property taxes and municipal licenses taxes and, licenses and permits were to **\$1,623,697 (14 percent of total revenues)** and **\$745,346 (20 percent of total revenues)**, respectively.
- The Municipality has reported a net change in net assets (deficiency of revenues over expenses) amounting to **(\$2,663,911)** in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances of **\$776,820** of which **\$621,936 (80 percent)** represent the fund balances of the general fund, capital projects funds and debt service fund combined (all known as the Municipality's major funds).

- The Municipality has reported unreserved fund balance for the general fund amounting to **(\$2,750,009)**.
- The Municipality has reported a deficiency of revenues and other financing sources over expenditures and other financing uses amounting to **\$3,314,401** in the governmental funds. From such amount, **(\$3,366,840)** correspond to General Fund, debt service and capital projects fund and **\$52,439** to the other governmental funds. As a significant fact, the Municipality's outlays for capital projects during the year amounted **\$1,067,435** while to the disponible funds provine of the fund balance available at beginning of the fiscal year. Such outlays over financing sources and reducing the expected income for the incongruence on the State economy were the principal reasons of the deficiency in the governmental funds.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: **(1)** the government-wide financial statements, **(2)** the fund financial statements, and **(3)** the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statements) in addition to the basic financial statements themselves. These components are described below:

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended **June 30, 2003** even if cash involved have not been received or paid. The government-wide financial statements include: **(1)** the statements of net assets and **(2)** the statement of activities.

Statement of Net Assets

The statement of net *assets* presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (equity). Over time,

increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended **June 30, 2003**. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Municipality's fund financial statements, which consist of: **(1)** the balance sheet – governmental funds and **(2)** the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: **(1)** individual parts of the Municipality's government and **(2)** reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: **(1)** general fund, **(2)**

debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year (**June 30, 2003**). This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has two major funds: (1) the general fund and (2) the debt service fund.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of: (1) a combining financial statements referred in connection to nonmajor governmental funds is presented, and (2) a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

Government-wide Financial Statements Summary

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, assets exceeded liabilities by **\$826,342** at **June 30, 2003**.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets (e.g., land, buildings, machinery, equipment and all other property), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements including its component unit, Brisas de Loiza Project:

Condensed Statement of Net Assets:

	<u>June 30, 2003</u>
Current assets	\$ 4,201,897
Capital assets	<u>\$ 6,510,128</u>
Total assets	<u>\$10,712,025</u>
Current liabilities	\$ 3,609,279
Non-current liabilities	<u>\$ 6,276,404</u>
Total liabilities	\$ 9,885,683
Net assets/(liabilities):	
Invested in capital assets, net of related debt	\$ 2,915,958
Restricted	\$ 3,197,847
Unrestricted	\$ (5,287,463)
Total net assets	\$ 826,342

An additional portion of the Municipality's net assets (3 percent) represents resources that are subject to restrictions on how they may be used. At the end of the current fiscal year, the Municipality has reported positive balances in two categories of net assets.

Condensed Statement of Activities:

June 30, 2003

Revenues:	
Program revenues:	
Charges for services	\$ 11,040
Operating grants and contributions	\$ 3,270,996
Capital grants and contributions	\$ 148,135
General revenues:	
Property taxes	\$ 1,623,697
Municipal license taxes	\$ 410,364
Construction excise taxes	\$ 334,982
Other	\$ 6,044,856
Total revenues	<u>\$11,844,066</u>
Expenses:	
General government	\$ 6,151,360
Public safety	\$ 942,592
Health and welfare	\$ 4,102,056
Public works	\$ 2,442,600
Recreation	\$ 344,458
Depreciation expense	\$ 239,254
Interest on long-term debt	\$ 184,202
Total expenses	<u>\$14,406,520</u>
Net decrease in net assets	\$ (2,562,456)
Net assets – at beginning of year	<u>\$ 3,388,798</u>
Net assets – at end of year	<u>\$ 826,342</u>

Fund Financial Statements Summary

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

Condensed Balance Sheet – Governmental funds:

	<u>June 30, 2003</u>
Total Assets – Major Funds	\$ 4,389,251
Total Assets – Nonmajor Funds	<u>\$ 812,647</u>
Total assets	<u>\$ 5,201,898</u>
Total Liabilities – Major Funds	\$ 3,767,315
Total Liabilities – Nonmajor Funds	<u>\$ 657,763</u>
Total liabilities	<u>\$ 4,425,078</u>
Fund Balances – Major Funds	\$ 621,936
Fund Balances – Nonmajor Funds	<u>\$ 154,884</u>
Total Fund Balance	<u>\$ 776,820</u>

Condensed Statement of Operations – Governmental funds:

Total Revenues – Major Funds	\$ 8,025,942
Total Revenues – Nonmajor Funds	<u>\$ 3,818,124</u>
Total revenues	<u>\$11,844,066</u>
Total expenditures – Major Funds	\$11,392,782
Total expenditures – Nonmajor Funds	<u>\$ 3,765,685</u>
Total expenditures	<u>\$15,158,467</u>
Other financing sources (uses) Major	\$ -0-
Other financing sources (uses) Nonmajor	\$ -0-
Revenues Over Expenses – Major	\$(3,366,840)
Revenues Over Expenses – Nonmajor	\$ 52,439
Total Fund Balance, beginning	\$(3,314,401)

Financial Contact

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 1st floor of the **Loiza City Hall, Loiza, Puerto Rico.**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
STATEMENT OF NET ASSETS
JUNE 30, 2003**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Brisas de Loíza Project</u>
Cash in bank (Note 2)	\$ 410,433	\$ 80,947
Cash with fiscal agent (Note 2)	2,635,250	
Accounts receivables		22,303
Due from other agencies (Note 8)	1,112,976	14,849
Restricted deposits		257,579
Inventories		7,225
Other assets	43,238	
Capital assets, net (Note 10)	<u>6,510,128</u>	<u>1,811,849</u>
 Total assets	 <u>\$ 10,712,025</u>	 <u>\$ 2,194,752</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Account payable and accrued liabilities	\$ 2,069,563	\$ 61,637
Deposits payable	276,485	12,640
Due to other agencies (Note 11)	674,926	
Deferred revenues (Note 12):		
Municipal license tax	293,854	
Federal government	110,249	
Accrued interest	184,202	
Noncurrent liabilities (Note 14):		
Due within one year	603,385	73,369
Due in more than one year	<u>5,673,019</u>	<u>2,042,842</u>
Total liabilities	<u>9,885,683</u>	<u>2,190,488</u>
Net Assets		
Investment in capital assets, net of related debt	2,915,958	
Restricted for:		
Debt service	1,369,731	
Capital projects	1,828,116	
Unrestricted	<u>(5,287,463)</u>	<u>4,264</u>
 Total net assets	 <u>\$ 826,342</u>	 <u>\$ 4,264</u>

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

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Functions/Programs	Expenses	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Licenses and Permits	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit Brisas de Loiza Project
Primary Government:							
General government	\$ 6,151,360	\$ 11,040	\$ 334,982	\$ -	\$ -	\$ (5,805,338)	\$ -
Public safety	942,592					(942,592)	
Public works	2,442,600				148,135	(2,294,465)	
Recreation	344,458					(344,458)	
Health and welfare	4,102,056			3,270,996		(831,060)	
Depreciation expense	239,254					(239,254)	
Interest on long-term debt	184,202					(184,202)	
Total primary government	<u>\$ 14,406,522</u>	<u>\$ 11,040</u>	<u>\$ 334,982</u>	<u>\$ 3,270,996</u>	<u>\$ 148,135</u>	<u>(10,641,369)</u>	
Component Unit:							
Brisas de Loiza Project	\$ 349,197	\$ 308,985	\$ -	\$ -	\$ -		(40,212)
General revenues:							
Property taxes						1,623,697	
Municipal license tax						410,364	
Grants and contributions not restricted to specific programs						5,666,758	
Interest, fines and penalties						94,581	859
Miscellaneous						283,513	2,706
Total general revenues						<u>8,078,913</u>	<u>3,565</u>
Change in net assets						(2,562,456)	(36,647)
Net assets at beginning of year						3,388,798	40,911
Net assets at end of year						<u>\$ 826,342</u>	<u>\$ 4,264</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2003

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents (Note 2)	\$ 124,848	\$ 101,402	\$ -	\$ 30,014	\$ 154,169	\$ 410,433
Cash with fiscal agent (Note 2)	15,753		1,369,731	1,249,766		2,635,250
Due from other agencies (Note 8)	757,426	309,152			46,398	1,112,976
Due from other funds (Note 9)	91,334			707,141	201,526	1,000,001
Other assets	43,238					43,238
Total assets	\$ 1,032,599	\$ 410,554	\$ 1,369,731	\$ 1,986,921	\$ 402,093	\$ 5,201,898

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2003**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities						
Account payable and accrued liabilities	\$ 1,798,338	\$ 271,225	\$ -	\$ -	\$ -	\$ 2,069,563
Deposits payable	276,485					276,485
Due to other funds (Note 9)	564,907	39,604		158,805	236,685	1,000,001
Due to other agencies (Note 11)	674,926					674,926
Deferred revenues (Note 13):						
Municipal license tax	293,854					293,854
Federal government		99,725			10,524	110,249
Total liabilities	<u>3,608,510</u>	<u>410,554</u>	<u>-</u>	<u>158,805</u>	<u>247,209</u>	<u>4,425,078</u>
Fund Balances (Deficit)						
Reserved for:						
Encumbrances	174,098					174,098
Debt service			1,369,731			1,369,731
Capital projects				1,828,116		1,828,116
Unreserved fund balance (deficit)	(2,750,009)				154,884	(2,595,125)
Total fund balance (deficit)	<u>(2,575,911)</u>	<u>-</u>	<u>1,369,731</u>	<u>1,828,116</u>	<u>154,884</u>	<u>776,820</u>
Total liabilities and fund balance	<u>\$ 1,032,599</u>	<u>\$ 410,554</u>	<u>\$ 1,369,731</u>	<u>\$ 1,986,921</u>	<u>\$ 402,093</u>	<u>\$ 5,201,898</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2003**

Total fund balances - governmental funds	\$ 776,820
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	6,510,128
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	(<u>6,460,606</u>)
Net assets of governmental activities	\$ <u>826,342</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General	Housing and Urban Development Programs	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes (Note 6)	\$ 1,381,197	\$ -	\$ 242,500	\$ -	\$ -	\$ 1,623,697
Municipal license taxes (Note 7)	410,364					410,364
Licenses and permits	334,982					334,982
Charges for service and rents	11,040					11,040
Intergovernmental revenues (Note 13):						
Federal grants and contributions		3,112,826			158,170	3,270,996
State contributions	5,119,630			148,135	547,128	5,814,893
Interest, fines, and penalties	94,581					94,581
Other revenues	262,157		21,356			283,513
Total revenues	<u>7,613,951</u>	<u>3,112,826</u>	<u>263,856</u>	<u>148,135</u>	<u>705,298</u>	<u>11,844,066</u>
EXPENDITURES						
Current:						
General government	5,854,244					5,854,244
Public safety	942,592					942,592
Public works	2,442,600					2,442,600
Recreation	344,458					344,458
Health and welfare	336,371	3,112,826			652,859	4,102,056
Capital outlays						-
Debt service:						
Principal retirement			223,284			223,284
Interest and other			181,798			181,798
Total expenditures	<u>9,920,265</u>	<u>3,112,826</u>	<u>405,082</u>	<u>1,067,435</u>	<u>652,859</u>	<u>15,158,467</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,306,314)</u>	<u>-</u>	<u>(141,226)</u>	<u>(919,300)</u>	<u>52,439</u>	<u>(3,314,401)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	121,913		159,536			281,449
Transfers out	(159,536)		(121,913)			(281,449)
Total other financing sources (uses)	<u>(37,623)</u>	<u>-</u>	<u>37,623</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(2,343,937)</u>	<u>-</u>	<u>(103,603)</u>	<u>(919,300)</u>	<u>52,439</u>	<u>(3,314,401)</u>
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>(231,974)</u>		<u>1,473,334</u>	<u>2,747,416</u>	<u>102,445</u>	<u>4,091,221</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ (2,575,911)</u>	<u>\$ -</u>	<u>\$ 1,369,731</u>	<u>\$ 1,828,116</u>	<u>\$ 154,884</u>	<u>\$ 776,820</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Net change in fund balances - total governmental funds	(\$3,314,401)
Amounts reported for governmental activities in the statement of activities are different because:	
• Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	1,067,435
• Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.	(239,254)
• Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities.	223,284
• Change in accrued interest expense which does not require the use of current financial resources.	(2,404)
• Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(<u>297,116</u>)
Changes in net assets of governmental activities	<u>(\$2,562,456)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES-BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 1,181,252	\$ 1,181,252	\$ 1,181,252	\$ -	\$ 250,882	\$ 250,882	\$ 242,500	\$ (8,382)
Municipal license taxes	351,695	351,695	410,364	58,669				
Licenses and permits	371,000	371,000	334,982	(36,018)				
Charges for services and rent	10,000	10,000	11,040	1,040				
Intergovernmental revenues:								
State contributions	5,105,770	5,105,770	5,119,630	13,860				
Interest, fines and penalties	48,806	48,806	216,494	167,688	-	-		-
Other revenues	100,000	100,000	151,170	51,170				
Total revenues	<u>7,168,523</u>	<u>7,168,523</u>	<u>7,424,932</u>	<u>256,409</u>	<u>250,882</u>	<u>250,882</u>	<u>242,500</u>	<u>(8,382)</u>
EXPENDITURES								
Current:								
General government	3,793,090	4,290,034	5,367,471	(1,077,437)				
Public safety	835,703	909,260	942,592	(33,332)				
Public works	1,901,228	1,956,703	2,442,600	(485,897)				
Recreation	302,131	316,398	344,458	(28,060)				
Health and welfare	336,371	336,371	336,371	-				
Debt service:								
Principal					73,146	73,146	223,284	150,138
Interest					177,736	177,736	181,798	4,062
Total expenditures	<u>7,168,523</u>	<u>7,808,766</u>	<u>9,433,492</u>	<u>(1,624,726)</u>	<u>250,882</u>	<u>250,882</u>	<u>405,082</u>	<u>154,200</u>
OTHER FINANCING SOURCES								
Reprogramming funds		640,243	640,243	-				
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,368,317)</u>	<u>\$ (1,368,317)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (162,582)</u>	<u>\$ (162,582)</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. 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: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For fiscal year ended June 30, 2003, the Municipality implemented GASB Statement No. 34 (GASB 34), Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; GASB Statement No. 37 (GASB 37), Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; GASB Statement No. 38 (GASB 38), Certain Financial Statements Disclosures; and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements. GASB 34, as amended by GASB 37, establishes new requirements and a new reporting model for the financial statements of state and local governments. GASB 34 was developed to make the financial statements easier to understand and more useful to the people who use governmental financial information to make decisions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity", of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Brisas de Loíza Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will

Brisas de Loíza Project is a 70-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing Corporation. The Project is operated under Section 221(d)(3) of USDA, Rural Development (USDA-RD) and regulated by the U. S. Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section 8 Housing Assistance Payments agreements with HUD, and a significant portion of the Project's rental income is received from HUD. Also, the Project is financed by a Mortgage of Section 221 (d)(3) Direct Loan.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Separate financial statements of the individual component unit can be obtained from the respective administrative office.

Administrative office:
García de la Noceda Street
Loíza, Puerto Rico 00772

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Municipality reports the following major governmental funds:

1) General Fund

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

2) Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

3) Debt Service Fund

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

4) Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

d. Cash and Cash with Fiscal Agent

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

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

e. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

f. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Useful Life</u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

g. Reservation of Fund Balance

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

1) Encumbrances

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

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Projects Fund

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

h. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2003 amounted to approximately \$175,000. The

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$169,000 million for workers compensation insurance covering all municipal employees.

i. Compensated Absences

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.

j. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

k. 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>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
39	Determining Whether Certain Organizations are Components Units	2003-04
40	Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements.	2004-05
42	Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries	2004-05

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

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

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

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

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2003 is presented below for the general and debt service funds:

	<u>General</u>	<u>Debt Service</u>
Excess of expenditures over revenues - GAAP basis	(\$2,343,937)	(\$103,603)
Entity differences:		
Non-budgeted funds	(14,793)	
Non-budgeted transfers in	(121,913)	(159,536)
Non-budgeted transfers out	159,536	121,913
Non- budgeted revenues		(21,356)
Reprogramming funds	640,243	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>General</u>	<u>Debt Service</u>
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	\$ 236,590	\$ -
Current year encumbrances recorded as expenditures for budgetary purposes	(174,098)	-
Basis of accounting differences - net change in receivables	(199,945)	-
Change in payable - legal claims	<u>450,000</u>	<u>-</u>
 Excess of revenues over expenditures - Budgetary basis	 <u>(\$1,368,317)</u>	 <u>(\$162,582)</u>

c. Legal Compliance

The legal level of budgetary control is at the individual department level for general fund expenditures; and principal and interest due for the debt service fund.

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$6.5 million difference are as follows:

Bonds payable	\$3,594,170
Compensated absences	1,188,464
Advances from CRIM	904,697
Due to Puerto Rico Health Insurance Administration	262,443
Due to Puerto Rico Treasury Department	260,029
Accrued interest payable	184,202
Due to Puerto Rico Labor Department	<u>66,601</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$6,460,606</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

5. DEPOSITS

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

The Municipality's bank balance of deposits with financial institutions is categorized to provide an indication of the level of collateral risk assumed by the Municipality at June 30, 2003. Risk categories are described as follows:

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

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

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

The Municipality's bank balances in commercial banks of approximately \$1.6 million were fully collateralized at June 30, 2003 (Category 1).

The deposits at GDB of approximately \$2.1 million that are restricted principally for capital projects, and the \$1.4 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks (Category 3).

The Municipality maintains its investments in one (1) bank located at Puerto Rico. All kind of deposits are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

6. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.08% for real property and 5.08% 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%
Discounts made by state to tax payer	< .20% >	< .20% >
	<u>8.08%</u>	<u>6.08%</u>

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

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. During July 2003, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for approximately \$905,000 million. This amount will be repaid through advances from property taxes (refer to Note 20).

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2002-03, but not the final settlement as the six months period after fiscal year end, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, during the year ended June 30, 2003, the amount collected from taxpayers and charges by CRIM of approximately \$5.6 million, less than the advances received by the Municipality for the same period by approximately \$200,000 million. Such amount is presented as intergovernmental receivable in the general fund in the basic financial statements (Refer to Note 8).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

7. 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, 2003. 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. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Loíza, are as follows:

Savings and loans associations	= 1.00%
Financial institutions	= 1.50%
Other organization	= .50%

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 approximately \$294,000, corresponding to the next fiscal year municipal license.

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$ 557,481
HUD - SBGP Program	306,800
Municipal Revenue Collection Center	199,945
Other governmental funds	46,398
Municipality of San Juan - HUD (HOPWA)	<u>2,352</u>
	<u>\$1,112,976</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2003, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	General	\$ 522,185
Other Governmental Funds	General	42,721
Other Governmental Funds	Capital Projects	158,805
Capital Projects	Other Governmental Funds	145,351
General	Other Governmental Funds	91,334
Capital Projects	HUD Programs	<u>39,605</u>
Total		<u>\$1,000,001</u>

The balance of \$522,185 due to the capital projects fund to the general fund resulted from loans for working capital purposes. The balances are scheduled to be collected in the subsequent year.

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

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2003 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$159,536
General	Debt Service	<u>121,913</u>
Total		<u>\$281,449</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The transfer from the General fund to the Debt Service fund represents receipts restricted as debt service payments become due. Transfer from the Debt Service fund to the General fund represents interest income generated by the bank account with GDB, which is remitted to the General fund for working capital purposes.

10. CAPITAL ASSETS

a. Primary Government

Capital asset activity for the year ended June 30, 2003 was as follows:

	<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,628,017	\$ -	\$ -	\$ 1,628,017
Total capital assets, not being depreciated	<u>1,628,017</u>	<u>-</u>	<u>-</u>	<u>1,628,017</u>
Capital assets, being depreciated:				
Buildings and building improvements	4,988,000			4,988,000
Furniture and fixtures	254,784	27,601		282,385
Vehicles and equipment	1,501,533	429,377	404,050	1,526,860
Infrastructure	943,569	595,148		1,538,717
Total capital assets, being depreciated	<u>7,687,886</u>	<u>1,052,126</u>	<u>404,050</u>	<u>8,335,962</u>
Less accumulated depreciation for:				
Buildings and building improvements	1,776,068	108,643		1,884,711
Furnitures and fixtures	165,000	39,402		204,402
Vehicles and equipment	1,545,479	72,338	404,050	1,213,767
Infrastructure	132,100	18,871		150,971
Total accumulated depreciation	<u>3,618,647</u>	<u>239,254</u>	<u>404,050</u>	<u>3,453,851</u>
Total capital assets, being depreciated, net	<u>4,069,239</u>	<u>812,872</u>	<u>-</u>	<u>4,882,111</u>
Governmental activities capital assets, net	<u>\$ 5,697,256</u>	<u>\$ 812,872</u>	<u>\$ -</u>	<u>\$ 6,510,128</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

b. Discretely Presented Component Unit

Activity for Brisas de Loíza Project for the fiscal year ended June 30, 2003 was as follows:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital assets, not being depreciated:				
Land	\$ 109,735	\$ -	\$ -	\$ 109,735
Total capital assets, not being depreciated	<u>109,735</u>	<u>-</u>	<u>-</u>	<u>109,735</u>
Capital assets, being depreciated:				
Land improvements	196,436	1,840		198,276
Buildings and building improvements	2,624,075	1,069		2,625,144
Building equipment	171,296	5,917		177,213
Furniture and fixtures	15,312	15,398		30,710
Equipment	31,891	2,836		34,727
Total capital assets, being depreciated	<u>3,039,010</u>	<u>27,060</u>	<u>-</u>	<u>3,066,070</u>
Less accumulated depreciation for:				
Land improvements	125,185	4,911		130,096
Buildings and building improvements	998,321	91,740		1,090,061
Building equipment	94,182	7,507		101,689
Furnitures and fixtures	26,025	3,104		29,129
Equipment	10,279	2,702		12,981
Total accumulated depreciation	<u>1,253,992</u>	<u>109,964</u>	<u>-</u>	<u>1,363,956</u>
Total capital assets, being depreciated, net	<u>1,785,018</u>	<u>(82,904)</u>	<u>-</u>	<u>1,702,114</u>
Brisas de Loíza Project capital assets, net	<u>\$ 1,894,753</u>	<u>\$ (82,904)</u>	<u>\$ -</u>	<u>\$ 1,811,849</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2003 are as follows:

Puerto Rico Electric Power Authority	\$502,360
Retirement System Administration	119,275
General Services Administration	20,555
Puerto Rico Water and Sewer Authority	16,754
Puerto Rico Treasury Department	14,280
U. S. Internal Revenue Service	<u>1,702</u>
 Total	 <u>\$674,926</u>

12. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of approximately \$294,000 in the general fund related to municipal license tax collected in fiscal year 2002-03 that will be earned in fiscal year 2003-04.

b. Federal Government

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

Program/Grant Description

Other major governmental funds	\$ 10,524
Urban Development Action Grant (HUD)	83,953
Section 8 Housing Voucher (HUD)	8,754
Housing Opportunities for Persons with AIDS	<u>7,018</u>
 Total	 <u>\$110,249</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

13. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, and payments in lieu of taxes from the Puerto Rico Electric Power Authority.

14. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2003 are as follows:

a. Bonds

\$80,000 series of 1988, payable in annual installments of \$5,000 to \$10,000 until July 1, 2003, interest ranging from 3.26% to 9.5%.	\$ 10,000
\$451,000 series of 1993, payable in annual installments of \$10,000 to \$32,000 until January 1, 2016, interest at 5%.	317,000
\$100,000 series of 1996, payable in annual installments of \$3,000 to \$8,000 until January 1, 2015, interest at 4.5%.	73,000
\$385,000 series of 1999, payable in annual installments of \$40,000 to \$70,000 until July 1, 2007, interest ranging from 7.81% to 8%.	300,000
\$1,685,000 series of 1999, payable in annual installments of \$30,000 to \$150,000 until July 1, 2023, interest ranging from 5.88% to 8%.	1,625,000
\$655,000 series of 2002, payable in annual installments of \$5,000 to \$20,000 until July 1, 2026, interest ranging from 5% to 8%.	650,000
\$870,000 series of 1987, payable in annual installments of \$15,000 to \$90,000 until July 1, 2006, interest at 8.5%.	294,170

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

\$400,000 series of 1997, payable in annual installments of \$10,000 to \$40,000 until July 1, 2016, interest at 6.75% \$ 325,000

\$3,594,170

The annual debt service requirements for the bonds payable at June 30, 2003, are as follows:

	<u>Principal</u>	<u>Interest</u>
2004	\$ 208,000	\$ 184,202
2005	214,000	190,704
2006	230,000	178,324
2007	230,170	164,763
2008	178,000	153,547
2009-2013	633,000	668,937
2014-2018	766,000	464,362
2019-2023	780,000	252,920
2024-2028	355,000	34,200
	<u>\$ 3,594,170</u>	<u>\$ 2,291,959</u>

b. Other Long-Term Liabilities

1) Due to Puerto Rico Health Insurance Administration

Due to Puerto Rico Health Insurance Administration represents the municipal contributions 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 withheld by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System.

2) Due to Puerto Rico Treasury Department

Due to Puerto Rico Treasury Department represents property tax advances, payable in monthly installments of \$2,639 until 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

3) Due to Puerto Rico Labor Department

Due to Puerto Rico Labor Department ("PRLD") represents unemployment contributions owed from previous years that were not remitted to the PRLD.

4) Advances from CRIM

Advances from CRIM represents property tax advances from year 2000-01. This amount will be paid with the proceeds of loan with GDB. Refer to Note 6.

As described in Note 6, the Municipality levies an annual special tax of 1.48% 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 CRIM.

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable	\$ 3,785,167	\$ -	\$ 190,997	\$ 3,594,170	\$ 208,000
Other long-term liabilities:					
Due to Puerto Rico Health Insurance Administration	262,443	-	-	262,443	-
Due to Puerto Rico Treasury Department	221,683	70,014	31,668	260,029	31,668
Due to Puerto Rico Labor Department	30,868	46,349	10,616	66,601	66,601
Advances from CRIM	904,697	-	-	904,697	-
Compensated absences	702,924	485,540	-	1,188,464	297,116
Total other long-term liabilities	<u>2,122,615</u>	<u>601,903</u>	<u>42,284</u>	<u>2,682,234</u>	<u>395,385</u>
Total noncurrent liabilities, governmental activities	<u>\$ 5,907,782</u>	<u>\$ 601,903</u>	<u>\$ 233,281</u>	<u>\$ 6,276,404</u>	<u>\$ 603,385</u>
Component Unit:					
Brisas de Loiza Project mortgage payable	<u>\$ 2,130,912</u>	<u>\$ -</u>	<u>\$ 14,701</u>	<u>\$ 2,116,211</u>	<u>\$ -</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

15. RETIREMENT PLAN

a. Plan Description

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

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

ERS 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 fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

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

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

(55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service

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

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

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

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's contributions are 9.275% of gross salary. Contributions'

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2003 was approximately \$139,000. The Municipality's payroll for employees covered by ERS was approximately \$1.5 million. The Municipality total payroll for all employees was approximately \$3.9 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2003, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

16. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

17. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- 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, 2003 was approximately \$11,000.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Leasing arrangements with the Municipality as lessee:

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

18. 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 is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

19. COMMITMENTS

The Municipality of Loíza had several outstanding or planned construction projects as of June 30, 2003. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$2.6 million.

20. SUBSEQUENT EVENT

On July 1, 2003, the Municipality entered into a loan agreement of approximately \$905,000 with GDB. The proceeds of the loan was used to cancel the outstanding balance of advances from CRIM as enacted by Public Law 42 (refer to Note 6). The loan has an interest rate of 6.18%, payable annually, and matures on July 1, 2031.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<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-Housing Choice Vouchers	14.871	\$ 32,872
Pass-through State - Commissioner Office of Municipal Affairs		
Community Development Block Grant-State Program SBGP	14.228	3,036,838
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	<u>43,116</u>
Subtotal U. S. Department of HUD		<u>3,112,826</u>
U. S. Department of Health and Human Services (HHS)		
Child Care and Development Block Grant	93.575	<u>143,208</u>
Subtotal U. S. Department of HHS		<u>143,208</u>
U. S. Department of Agriculture		
Pass-through Education Department Child and Adult Care Food Program	10.558	<u>11,767</u>
Subtotal U. S. Department of Agriculture		<u>11,767</u>
TOTAL		<u>\$3,267,801</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the 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 BASIC FINANCIAL STATEMENTS

The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Expenditures per basic financial statements:

Housing and Urban Development programs	\$3,112,826
Less non-federal expenditures included within the Other nonmajor governmental funds	<u>154,975</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$3,267,801</u>



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

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

We have audited the financial statements of the Municipality of Loíza as of and for the year ended June 30, 2003, and have issued our report thereon dated November 14, 2003. 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 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item a, b, and c.

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 the 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 financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items a and b.

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 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, of the reportable conditions described above, we consider items a and b to be material weaknesses. 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 November 14, 2003.

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.

Ortiz, Rodriguez, Rivera & Co

San Juan, Puerto Rico
November 14, 2003





ORTIZ, RODRIGUEZ, RIVERA & CO.

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

To the Honorable Mayor
and Municipal Legislature
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, 2003. 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.

As described in items 03-1 to 03-3 in the accompanying schedule of findings and questioned costs, the Municipality of Loíza's did not comply with the requirements regarding cash management, reporting and activities allowed or unallowed; allowable costs/cost principle that are applicable to Community Development Block Grants/States Program (SBGP). Compliance with such requirements is necessary in our opinion for the Municipality of Loíza to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2003.

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.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Municipality of Loíza's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-1 to 03-3.

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 noncompliance with the 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. Our consideration of the internal control over compliance 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, of the reportable conditions described above, we consider item 03-3 to be a material weakness.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>						
	<p>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>Recommendation</u></p> <p>The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.</p>							
SBGP CFDA No. 14.228	<p>Condition 03-2</p> <p>The Municipality did not comply with the requirement of preparing and filing its federal financial reports on a timely basis. During our examination of the Federal Financial Reports, we noted that the Municipality did not send on time the quarterly report for the following period ended:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Quarter Ended</u></th> <th style="text-align: center;"><u>Due Date</u></th> <th style="text-align: center;"><u>Date Submitted</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">12-31-02</td> <td style="text-align: center;">02-10-03</td> <td style="text-align: center;">02-27-03</td> </tr> </tbody> </table>	<u>Quarter Ended</u>	<u>Due Date</u>	<u>Date Submitted</u>	12-31-02	02-10-03	02-27-03	\$ <u>-0-</u>
<u>Quarter Ended</u>	<u>Due Date</u>	<u>Date Submitted</u>						
12-31-02	02-10-03	02-27-03						

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Criteria</u></p> <p>The Municipality is not in compliance with 43 CFR 13.41-(b)(3) which requires federal fund recipients to periodically monitor the performance of grant-supported activities to ensure that time schedules are being met, projected work units by time periods are being accomplished, and other performance goals are being achieved by the preparation of federal financial reports. To achieve these goals, program management shall prepare accurate and timely federal financial reports.</p>	
	<p><u>Cause</u></p> <p>The above situation occurred because the Municipality did not ensure to verify and understand its reporting requirements for this program.</p>	
	<p><u>Effect</u></p> <p>The continued failure to file the required reports may result in sanctions by the Federal grantor, such as grant payment withholdings.</p>	
	<p><u>Recommendation</u></p> <p>The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially with new grants are received. This can be achieved by obtaining the information applicable to the program from the pass-thru</p>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Program	Finding/Noncompliance	Questioned Costs
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**SBGP
CFDA
No. 14.223**

Condition 03-3

grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from the federal government.

In order to test the allowability of the disbursements for the fiscal year ended June 30, 2003, we selected 25 disbursements which totaled \$1,530,580 or 50% of the program. The Municipality could not provide adequate supporting documentation in three out of the 25 disbursements tested, or 6% of our sample, amounting to \$98,559.51 as follows:

\$98,559.51

<u>Check Number</u>	<u>Payee</u>	<u>Date</u>	<u>Amount</u>
1	Director de Finanzas	03-05-03	\$95,000.00
2797	Director de Finanzas	09-10-02	2,092.35
<i>297</i> 2707	Director de Finanzas	02-13-03	1,467.16
			<u>\$98,559.51</u>

OK 9/9/04 ubuf
SALARIOS OK 9/9/04 ubuf

Criteria

As per OMB A-87, to be allowable under federal awards, costs must be adequately documented. In addition, 24 CFR (b) requires that except as otherwise provided, records must be retained for three years starting the day the grantee submits to the awarding agency its expenditure report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Cause</u></p> <p>The Municipality does not keep adequate internal control procedures regarding the filing of documents.</p> <p><u>Effect</u></p> <p>Failure to maintain adequate accounting records may result in disallowance of costs by the awarding agency.</p> <p><u>Recommendation</u></p> <p>The Municipality's management should ascertain that adequate source documentation exists to support amounts and items reported as expenditures. The Municipality should also establish a recordkeeping system to ensure that accounting records and documentation are retained for the time period required by applicable requirements and the provisions of laws, regulations, contracts or grant agreements applicable to the program.</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, 2003**

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 LOÍZA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA No. 14.228	Condition 02-1 This program maintains a high balance in cash.	Condition still continues.
	Condition 02-2 The program did not send on time the quarterly reports.	Condition still continues.
	Condition 02-3 A contract paid by funds of the program did not have the required clauses.	Condition was corrected.
HOPWA CFDA No. 14.241	Condition 02-4 Federal funds were not deposited on a separate bank account.	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

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
November 14, 2003

Ortiz, Rodriguez, Rivera & Co



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses an unqualified opinion on the financial statements of the Municipality of Loíza.
- b. There were reportable conditions on internal controls some of which are considered to be material weaknesses.
- c. Instances of noncompliance material to the financial statements of Municipality of Loíza were disclosed during the audit.
- d. There were reportable conditions on internal controls over major programs, of which one is considered to be a material weakness.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Loíza express a qualified 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 Grants/States Program SBGP - 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 auditee.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

a. General Ledger

The Municipality does not have the accounting practices, policies or internal controls in place to provide for the preparation of financial statements, on a timely basis, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). The accounting system does not provide for a self balancing set of accounts for each fund operated by the Municipality, recording cash and other financial resources, together with all related assets, liabilities, revenues, expenditures and changes in fund balances. Therefore, the financial statements must be prepared using financial information obtained from various departments and accounting records. The records are not integrated, and do not follow a double entry system (debits and credits). As a result, the records required significant adjustments in order to present the financial position and results of operations of the Municipality in conformity with generally accepted accounting principles.

The continued failure to have an adequate accounting system prevents the Municipality from having current accurate and reliable financial reports and information necessary for management to take efficient and effective actions, including corrective actions when plans and objectives are not being met.

The situation also heightens the possibility of significant financial reporting problems and delays in reporting when the Municipality implement the requirements of GASB Statement No. 34. This Statement is applicable to the Municipality's fiscal year June 30, 2003 financial statements. Failure to prepare and meet this requirement may significantly affect our auditors' report on the basic financial statements in the near future.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Recommendation

The Municipality should adopt and implement a plan to convert its accounting system to an integrated system that would allow for the monthly closing of the general ledger, as well as the preparation of year-end financial statements in accordance with generally accepted accounting principles.

This plan should provide for:

- 1) Assessment of the financial accounting and reporting needs in order to take the necessary steps to meet the financial reporting requirements of GASB Statement No. 34.
- 2) The implementation of a double entry accounting system, the integration of all subsidiary ledgers and the reconciliation with the records maintained for the federal funds.
- 3) The preparation of periodic financial reports to be submitted to the Finance Director and all other interested entities.
- 4) Adequate training of all accounting personnel to improve the understanding of the system and to promote operational efficiency.
- 5) Reconciliation of financial records with the reports prepared and submitted to the federal government.

b. Cash

Bank reconciliations were not prepared and reviewed on a timely basis. In addition, the year end bank reconciliations included various reconciling items related to prior years which are still pending to be posted to the general ledger.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The following bank reconciliations were not prepared:

<u>Account Name</u>	<u>Account Number</u>
Rehabilitación de Vivienda	308-010648
Servicios Sanitarios	308-010586
UDAG	308-01595
Local Law Enforcement	308-000169
Flexi Cuenta COPS	308-000052
FEMA - Georges	124-70400
Empréstito \$370,000	3000033-000002
Empréstito \$385,000	3000033-000003
Empréstito \$1,685,000	3000033-000004
Empréstito \$655,000	3000033-000005
Sobrante de Reserva	3000033-00591

The following bank reconciliations included reconciling items:

<u>Account Name</u>	<u>Account Number</u>	<u>Differences</u>
Cuenta Corriente	308-010540	\$64,149
Sección 8	308-010531	4,560
Departamento del Trabajo	308-010611	6,099
Aportaciones Estatales	308-000007	5,041

Recommendation

Bank reconciliations should be prepared and reviewed on a timely basis in order to identify errors or adjustments and correct them. This is extremely important given that the Municipality may not be able to prevent or detect, on a timely basis, errors, irregularities or illegal acts that may occur. Therefore, the Municipality is exposed to a significant risk of loss of funds.

c. Cash

Bank account reconciliation included several checks outstanding for more than six months. The net effect in the financial statements of this situation is an understatement of both cash and accounts payable.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The following bank reconciliations included checks outstanding for more than six months:

Cuenta corriente	\$23,948.36
SENDEC	772.50
SBGP	178.00

Recommendation:

The Municipality should investigate the nature of these old outstanding reconciling items to conclude as to their status and the liability of the Municipality.

**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 03-1</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</p>	<p><u>\$ -0-</u></p>



Hon. Ferdin Carrasquillo Ayala
Alcalde

Estado Libre Asociado de Puerto Rico

Municipio de Loíza

PO Box 508

Loíza, Puerto Rico 00772

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(787) 876-

Fax: (787) 256-

CORRECTIVE ACTION PLAN

November 14, 2003

Cognizant or Oversight Agency for Audit:

Municipality of Loíza respectfully submits the following corrective action plan for the year ended June 30, 2003

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, 2003

The findings from the June 30, 2003 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 03-1: SBGP- CFDA 14.228

Reportable Condition: See Condition 03-1

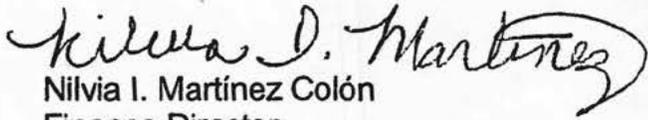
Recommendation

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

"Loíza, Capital de la Tradición"

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mrs. Nilvia I. Martínez Colón, Finance Director, at (787) 876-3570.

Sincerely yours,

A handwritten signature in cursive script that reads "Nilvia I. Martínez Colón". The signature is written in black ink and is positioned above the printed name and title.

Nilvia I. Martínez Colón
Finance Director

Action Taken

The Municipality already established procedures to coordinate efficiently the request of funds in order to disburse immediately after receipt or within three business days.

Finding 03-2: SBGP - CFDA 14.228

Reportable Condition: See Condition 03-2

Recommendation

The Municipality should verify and become familiar with all administrative requirements applicable to each federal financial assistance program, especially with new grants are received. This can be achieved by obtaining the information applicable to the program from the pass-thru grantor, federal grantor, or the Catalog of Federal Domestic Assistance ("CFDA"), which is available from the federal government.

Action Taken

The Municipality is taking all the necessary procedures to become familiar with all administrative requirements in order to file all the required reports on time.

Finding 03-3: SBGP - CFDA 14.228

Reportable Condition: See Condition 03-3

Recommendation

The Municipality's management should ascertain that adequate source documentation exists to support amounts and items reported as expenditures. The Municipality should also establish a recordkeeping system to ensure that accounting records and documentation are retained for the time period required by applicable requirements and the provisions of laws, regulations, contracts or grant agreements applicable to the program.

Action Taken

The Municipality is identifying the reasons for the missing documents and establishing control procedures for an adequate filing system.



Oficina de Finanzas
y Presupuesto

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(787) 876-1040

Directo (787) 256-2570

FAX OFICINA DE FINANZAS Y PRESUPUESTO

FECHA : 11 abril 05.

A : Sr. Adolfo Campos

FAX : (787) - 282 - 0354

DE : Sr. Samuel LANZÓ

ASUNTO : Envío de copia de estados de
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"Loíza, Capital de la Tradición"

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General	Housing and Urban Development Programs	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes (Note 6)	\$ 1,384,197	\$ -	\$ 242,500	\$ -	\$ -	\$ 1,623,697
Municipal license taxes (Note 7)	410,364					410,364
Licenses and permits	334,982					334,982
Charges for service and rents	11,040					11,040
Intergovernmental revenues (Note 13):						
Federal grants and contributions		3,112,826			158,170	3,270,996
State contributions	5,119,630			148,135	547,128	5,814,893
Interest, fines, and penalties	94,581					94,581
Other revenues	262,157		21,356			283,513
Total revenues	<u>7,613,951</u>	<u>3,112,826</u>	<u>263,856</u>	<u>148,135</u>	<u>705,298</u>	<u>11,844,066</u>
EXPENDITURES						
Current:						
General government	5,854,244					5,854,244
Public safety	942,592					942,592
Public works	2,442,600					2,442,600
Recreation	344,458					344,458
Health and welfare	336,371	3,112,826			652,859	4,102,056
Capital outlays						
Debt service:						
Principal retirement				1,067,435		1,067,435
Interest and other			223,284			223,284
Interest and other			181,798			181,798
Total expenditures	<u>8,920,265</u>	<u>3,112,826</u>	<u>405,082</u>	<u>1,067,435</u>	<u>652,859</u>	<u>15,158,467</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,306,314)</u>	<u>-</u>	<u>(141,228)</u>	<u>(919,300)</u>	<u>52,439</u>	<u>(3,314,401)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	121,913		159,536			281,449
Transfers out	<u>(150,536)</u>		<u>(121,913)</u>			<u>(281,449)</u>
Total other financing sources (uses)	<u>(37,623)</u>	<u>-</u>	<u>37,623</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(2,343,937)</u>	<u>-</u>	<u>(103,603)</u>	<u>(919,300)</u>	<u>52,439</u>	<u>(3,314,401)</u>
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>(231,974)</u>		<u>1,473,334</u>	<u>2,747,416</u>	<u>102,445</u>	<u>4,091,221</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ (2,575,911)</u>	<u>\$ -</u>	<u>\$ 1,369,731</u>	<u>\$ 1,828,116</u>	<u>\$ 154,884</u>	<u>\$ 776,820</u>

ORTIZ, RODRIGUEZ, RIVERA & CO.
 CERTIFIED PUBLIC ACCOUNTANTS • VALUERS • ADDITIONAL SERVICES
 Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

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