

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL

MUNICIPIO DE LOIZA
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

TABLE OF CONTENTS

	<u>Pages</u>
PART I - FINANCIAL SECTION	
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities.....	11
Fund Financial Statements-Governmental Funds	
Balance Sheet	12-13
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Revenues and Expenditures - Budget and Actual - General and Debt Service Funds.....	17
Notes to Basic Financial Statements	18-47

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

TABLE OF CONTENTS (CONTINUED)

	<u>Pages</u>
PART II – SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	48
Notes to Schedule of Expenditures of Federal Awards	49
Independent Auditor's Report on Compliance on Internal Control over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	50-51
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	52-54
Schedule of Findings and Questioned Costs	55-60
Schedule of Status of Prior Year Audit Findings and Questioned Costs	61-63
PART III – CORRECTIVE ACTION PLAN	
Corrective Action Plan	

ORTIZ, RIVERA, 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



ORTIZ, RIVERA, RIVERA & CO.

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis Rivera Zúñiga
CPA Zoraida Cruz Claudio

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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, each major fund and the aggregate remaining fund information of the Municipality of Loíza, as of and for the year ended June 30, 2009, 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, 2009. 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.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

The accounting records of the Municipality of Loíza related to interfund transactions were not adequate. Accordingly, we were unable to obtain sufficient evidence to support and satisfy ourselves about the amount recorded in each major funds and the aggregate remaining funds information as due from/due to other funds, stated at \$1,383,926 in the total governmental funds column of the balance sheet.

In addition, the accounting records of the Municipality related to accounts payable were not adequate. Accordingly, we were unable to obtain sufficient evidence to support and satisfy

ourselves about the amount recorded in the general fund as accounts payable, stated at \$4,788,799 in the balance sheet of the governmental funds.

In our opinion, based on our audit and the report of other auditors, except for the effects of not maintain adequate records related to accounts payable and interfund transactions, 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, 2009, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2009 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, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

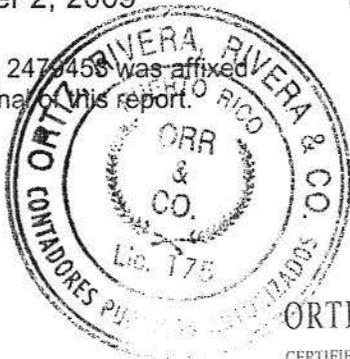
The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. 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 also not a required part of the basic financial statements. The schedule of expenditures of federal awards has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

San Juan, Puerto Rico
December 2, 2009



The stamp 2479458 was affixed
to the original of this report.



-2-

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

**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, 2009**. 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 **\$28,482,502** and **\$5,646,161** respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to **\$22,038,568 (77 percent of total Municipality's assets)**.
- The Municipality in the same activities has reported total liabilities amounting to **\$22,836,341** in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to **\$13,094,601 (57 percent of total liabilities)**.
- The Municipality has reported total revenues amounting to **\$17,743,015** in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Gubernamental Funds, for the Fiscal Year Ended **June 30, 2009**. The most significant revenues amounting in this statement are property taxes and municipal licenses taxes and, sales and use tax and licenses and permits were to **\$1,383,483 (8 percent of total revenues)** and **\$1,452,771 (8 percent of total revenues)**, respectively.
- The Municipality has reported a net change in net assets of revenues over expenditures amounting to **\$3,054,981** in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances of **(\$2,099,055)** which 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 a deficit for the general fund amounting to **(\$7,336,461)**.
- The Municipality has reported an excess of revenues and other financing sources over expenditures and other financing uses amounting to **\$1,210,000** in the

governmental funds. Such amount correspond to General Fund, debt service and capital projects fund. As a significant fact, the Municipality's outlays for capital projects during the year amounted **\$2,362,403** 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**).

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, 2009** 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, 2009**. 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, 2009**). 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 four major funds: **(1)** the general fund **(2)** the debt service fund **(3)** the Housing and Urban Development Programs and **(4)** the Capiotal Projects 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.

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 **\$5,646,161** at **June 30, 2009**.

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, 2009</u>
Current assets	\$ 6,443,934
Capital assets	\$ 22,038,568
Total assets	<u>\$ 28,482,502</u>
Current liabilities	\$ 8,806,964
Non-current liabilities	\$ 14,029,377
Total liabilities	<u>\$ 22,836,341</u>
Net assets/(liabilities):	
Invested in capital assets, net of related debt	\$ 12,506,641
Restricted	\$ 5,237,406
Unrestricted	\$(12,097,886)
Total net assets	<u>\$ 5,646,161</u>

An additional portion of the Municipality's net assets (**1 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:

	<u>June 30, 2009</u>
Revenues:	
Program revenues:	
Charges for services	\$ 1,007,662
Operating grants and contributions	\$ 857,998
Capital grants and contributions	\$ 4,208,716
General revenues:	
Property taxes	\$ 727,644
Municipal license taxes	\$ 655,839
Sales and use taxes	\$ 866,010
Grants and contributions	\$ 8,275,957
Interest, fines and penalties	\$ 39,991
Miscellaneous	\$ 1,507,365
Total revenues	<u>\$18,147,182</u>
Expenses:	
General government	\$ 5,943,293
Public safety	\$ 984,063
Public works	\$ 5,415,447
Culture	\$ 48,656
Recreation	\$ 425,456
Health and welfare	\$ 755,759
Depreciation expense	\$ 740,595
Interest on long-term debt	\$ 374,765
Brisas de Loiza Project	\$ 442,006
Total expenses	<u>\$15,130,040</u>
Change in net assets	\$ 3,017,142
Loss on disposition of assets	\$ -0-
Net assets – at beginning of year	<u>\$ 2,629,019</u>
Net assets – at end of year	<u>\$ 5,646,161</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, 2009</u>
Total Assets – Major Funds	\$ 7,447,993
Total Assets – Nonmajor Funds	\$ 111,342
Total assets	<u>\$ 7,559,335</u>
Total Liabilities – Major Funds	\$ 9,976,983
Total Liabilities – Nonmajor Funds	\$ 43,077
Total liabilities	<u>\$10,020,060</u>
Fund Balances – Major Funds	\$ (2,528,990)
Fund Balances – Nonmajor Funds	\$ 68,265
Total Fund Balance	<u>\$ (2,460,725)</u>

Condensed Statement of Operations – Governmental funds:

Total Revenues – Major Funds	\$17,402,679
Total Revenues – Nonmajor Funds	\$ 340,336
Total revenues	<u>\$17,743,015</u>
Total expenditures – Major Funds	\$14,771,587
Total expenditures – Nonmajor Funds	\$ 304,243
Total expenditures	<u>\$15,075,830</u>
Other financing sources (uses) Major	\$ 580,000
Other financing sources (uses) Nonmajor	\$ -0-
Revenues Over Expenses – Major	\$ 3,247,185
Revenues Over Expenses – Nonmajor	\$ -0-
Total Fund Balance	<u>\$ (2,460,725)</u>

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 2nd. floor of the **Loiza City Hall, Loiza, Puerto Rico.**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF NET ASSETS
JUNE 30, 2009**

<u>Assets</u>	<u>Governmental Activities</u>	<u>Brisas de Loiza Project</u>
Cash in bank (Notes 2 and 5)	\$ 2,173,367	\$ 43,012
Cash with fiscal agent (Notes 2 and 5)	2,678,177	
Accounts receivable:		
Interest receivable	11,730	
Other		34,930
Due from other agencies (Note 9)	1,312,135	
Restricted deposits		176,074
Inventories		5,232
Other assets		9,277
Capital assets, net (Note 11)	<u>20,680,073</u>	<u>1,358,495</u>
 Total assets	 <u>\$ 26,855,482</u>	 <u>\$ 1,627,020</u>
 <u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued liabilities	\$ 5,133,253	\$ 28,460
Deposits payable		11,565
Due to other agencies (Note 12)	2,996,931	
Accrued interest	130,805	
Deferred revenues (Note 13):		
Municipal license tax	282,872	
Intergovernmental	156,010	
Federal government	67,068	
Noncurrent liabilities (Note 15):		
Due within one year	907,316	27,460
Due in more than one year	11,127,599	1,967,002
Total liabilities	<u>20,801,854</u>	<u>2,034,487</u>
Net Assets		
Investment in capital assets, net of related debt	12,506,641	
Restricted for:		
Debt service	1,982,600	
Capital projects	3,254,806	
Unrestricted	(11,690,419)	(407,467)
Total net assets	<u>6,053,628</u>	<u>(407,467)</u>
 Total liabilities and net assets	 <u>\$ 26,855,482</u>	 <u>\$ 1,627,020</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Brisas de Loíza Project
Primary Government:						
General government	\$ 5,943,293	\$ 610,241	\$ -	\$ -	\$ (5,333,052)	\$ -
Public safety	984,063				(984,063)	
Public works	5,415,447		857,998	4,208,716	(348,733)	
Culture	48,656				(48,656)	
Recreation	425,456				(425,456)	
Health and welfare	755,759				(755,759)	
Depreciation expense	740,595				(740,595)	
Interest on long-term debt	374,765				(374,765)	
Total primary government	<u>\$ 14,688,034</u>	<u>\$ 610,241</u>	<u>\$ 857,998</u>	<u>\$ 4,208,716</u>	<u>(9,011,079)</u>	
Component Unit:						
Brisas de Loíza Project	<u>\$ 442,006</u>	<u>\$ 397,421</u>	<u>\$ -</u>	<u>\$ -</u>		<u>(44,585)</u>
General revenues:						
Property taxes (Note 6)					727,644	
Municipal license tax (Note 7)					655,839	
Sales and use taxes (Note 8)					866,010	
Grants and contributions not restricted to specific programs					8,275,957	
Interest, fines and penalties					34,789	5,202
Miscellaneous					1,505,821	1,544
Total general revenues					<u>12,066,060</u>	<u>6,746</u>
Change in net assets					3,054,981	(37,839)
Net assets at beginning of year, as restated (Note 21)					2,998,647	(369,628)
Net assets at end of year					<u>\$ 6,053,628</u>	<u>\$ (407,467)</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, 2009

<u>Assets</u>	General	Housing and Urban Development Programs	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents (Notes 2 and 5)	\$ 176,401	\$ 28,365	\$ -	\$1,857,259	\$ 111,342	\$ 2,173,367
Cash with fiscal agent (Notes 2 and 5)	48,233		1,906,512	723,432		2,678,177
Interest receivable			11,730			11,730
Due from other agencies (Note 9)	1,247,777		64,358			1,312,135
Due from other funds (Note 10)	399,833	5,690		978,403		1,383,926
Total assets	<u>\$ 1,872,244</u>	<u>\$ 34,055</u>	<u>\$1,982,600</u>	<u>\$3,559,094</u>	<u>\$ 111,342</u>	<u>\$ 7,559,335</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2009

<u>Liabilities and Fund Balance (Deficit)</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						
Accounts payable and accrued liabilities	\$ 4,788,799	\$ 40,166	\$ -	\$ 304,288	\$ -	\$ 5,133,253
Due to other agencies (Note 12)	2,996,931					2,996,931
Due to other funds (Note 10)	984,093	399,833				1,383,926
Deferred revenues (Note 13):						
Municipal license tax	282,872					282,872
Intergovernmental	156,010					156,010
Federal government		23,991			43,077	67,068
Total liabilities	<u>9,208,705</u>	<u>463,990</u>	<u>-</u>	<u>304,288</u>	<u>43,077</u>	<u>10,020,060</u>
Fund Balances (Deficit)						
Reserved for:						
Encumbrances	346,935					346,935
Debt service			1,982,600			1,982,600
Capital projects				3,254,806		3,254,806
Fund balance (deficit)	(7,683,396)	(429,935)			68,265	(8,045,066)
Total fund balance (deficit)	<u>(7,336,461)</u>	<u>(429,935)</u>	<u>1,982,600</u>	<u>3,254,806</u>	<u>68,265</u>	<u>(2,460,725)</u>
Total liabilities and fund balance (deficit)	<u>\$ 1,872,244</u>	<u>\$ 34,055</u>	<u>\$ 1,982,600</u>	<u>\$ 3,559,094</u>	<u>\$ 111,342</u>	<u>\$ 7,559,335</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, 2009**

Total fund balances - governmental funds	\$ (2,460,725)
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	20,680,073
• 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>(12,165,720)</u>
Net assets of governmental activities	<u>\$ 6,053,628</u>

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

-14-

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	General	Housing and Urban Development Programs	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes (Note 6)	\$ 425,854	\$ -	\$ 301,790	\$ -	\$ -	\$ 727,644
Municipal license taxes (Note 7)	655,839					655,839
Sales and use taxes (Note 8)	481,199		384,811			866,010
Licenses and permits	586,761					586,761
Charges for service and rents	23,480					23,480
Intergovernmental revenues: (Note 14)						
Federal grants and contributions		857,998			302,311	1,160,309
State contributions	7,935,621			4,208,716	38,025	12,182,362
Interest, fines, and penalties	11,329		23,460			34,789
Other revenues	1,505,821					1,505,821
Total revenues	<u>11,625,904</u>	<u>857,998</u>	<u>710,061</u>	<u>4,208,716</u>	<u>340,336</u>	<u>17,743,015</u>
EXPENDITURES						
Current:						
General government	6,082,557					6,082,557
Public safety	851,576				132,487	984,063
Public works	2,816,956	706,740				3,523,696
Culture	48,656					48,656
Recreation	425,456					425,456
Health and welfare	453,755	130,248			171,756	755,759
Capital outlays				2,362,403		2,362,403
Debt service:						
Principal retirement			522,471			522,471
Interest and other			370,769			370,769
Total expenditures	<u>10,678,956</u>	<u>836,988</u>	<u>893,240</u>	<u>2,362,403</u>	<u>304,243</u>	<u>15,075,830</u>
Excess (deficiency) of revenues over (under) expenditures	<u>946,948</u>	<u>21,010</u>	<u>(183,179)</u>	<u>1,846,313</u>	<u>36,093</u>	<u>2,667,185</u>
OTHER FINANCING SOURCES (USES)						
Bond issuance	580,000					580,000
Transfers in	11,730		328,678			340,408
Transfers out	(328,678)		(11,730)			(340,408)
Total other financing sources (uses)	<u>263,052</u>	<u>-</u>	<u>316,948</u>	<u>-</u>	<u>-</u>	<u>580,000</u>
Excess of revenues and other sources over expenditures and other uses	1,210,000	21,010	133,769	1,846,313	36,093	3,247,185
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED (Note 21)	<u>(8,546,461)</u>	<u>(450,945)</u>	<u>1,848,831</u>	<u>1,408,493</u>	<u>32,172</u>	<u>(5,707,910)</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ (7,336,461)</u>	<u>\$ (429,935)</u>	<u>\$ 1,982,600</u>	<u>\$ 3,254,806</u>	<u>\$ 68,265</u>	<u>\$ (2,460,725)</u>

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

Handwritten signature and date:
OTR
08/15/09
 P-15-

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

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

**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, 2009**

Net change in fund balances - total governmental funds \$ 3,247,185

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. 470,652
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental (740,595)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (580,000)
- 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. 522,471
- Change in accrued interest which does not require the use of current financial resources. (3,996)
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in 139,264

Changes in net assets of governmental activities \$ 3,054,981

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund				Debt Service Fund			Variance with Final Budget- Positive (Negative)
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 425,854	\$ 425,854	\$ 425,854	\$ -	\$ 106,463	\$ 106,463	\$ 301,790	\$ 195,327
Municipal license taxes	677,754	627,399	656,220	28,821				
Sales and use taxes					449,835	449,835	384,811	(65,024)
Licenses and permits	385,000	517,824	582,405	64,581				
Charges for services and rent	50,200	16,285	23,480	7,195				
Intergovernmental revenues:								
State contributions	7,676,504	7,668,716	7,633,992	(34,724)				
Interest, fines and penalties	22,000	15,304	15,304	-			23,460	23,460
Other revenues	700,000	1,792,895	1,505,821	(287,074)				
Total revenues	<u>9,937,312</u>	<u>11,064,277</u>	<u>10,843,076</u>	<u>(221,201)</u>	<u>556,298</u>	<u>556,298</u>	<u>710,061</u>	<u>153,763</u>
EXPENDITURES								
Current:								
General government	5,274,167	6,401,132	6,049,930	351,202				
Public safety	1,186,631	1,186,631	946,763	239,868				
Public works	2,417,230	2,417,230	2,570,665	(153,435)				
Culture	86,585	86,585	54,219	32,366				
Recreation	518,944	518,944	470,353	48,591				
Health and welfare	453,755	453,755	453,755	-				
Debt service:								
Principal					251,708	251,708	522,471	(270,763)
Interest					304,590	304,590	370,769	(66,179)
Total expenditures	<u>9,937,312</u>	<u>11,064,277</u>	<u>10,545,685</u>	<u>518,592</u>	<u>556,298</u>	<u>556,298</u>	<u>893,240</u>	<u>(336,942)</u>
Excess of revenues (expenditures) over (under) revenues (expenditures)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 297,391</u>	<u>\$ 297,391</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (183,179)</u>	<u>\$ (183,179)</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, 2009**

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.

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 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).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

- 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 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 reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14".

GASB Statement No. 39 provided additional guidance to determine whether certain organization for which the primary government is not financially accountable should be reported as components units, A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (b) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

organization, and; (c) the economic resources received or held by an individual organization that the specific primary government.

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 appoint a voting majority of the entity's governing body, and if either one of the following conditions exists: 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.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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.

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*.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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:

- 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.

- 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.

- 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

- 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.

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

5

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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:

	<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:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

- 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.

- Debt Service

Represents net assets available to finance future debt service payments.

- 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, 2009 amounted to approximately \$123,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$233,000 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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.

k. Future Adoption of Accounting Pronouncements

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

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
51	Accounting and Financial Reporting for Intangible Assets	2009-10
53	Accounting and Financial Reporting for Derivative Instruments	2009-10
54	Fund Balance Reporting and Governmental Fund Type Definitions	2010-11

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues over expenditures for the year ended June 30, 2009 is presented below for the general fund:

	<u>General</u>
Excess of revenues over - expenditures budgetary basis	\$ 297,391
Entity differences:	
Bond issuance	580,000
Non-budgeted expenditures, net	(304,390)
Non-budgeted transfer in	11,730
Non-budgeted transfer out	(328,678)
Timing differences:	
Prior year encumbrances	(444,956)
Current year encumbrances	346,935
Basis of accounting differences:	
Net change in receivables	114,418
Net change in payables	937,550
Excess of revenues over expenditures - GAAP basis	<u>\$1,210,000</u>

c. Legal Compliance

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

current period and therefore are not reported in the funds. The details of the approximately \$12.2 million difference is as follows:

Bonds payable	\$ 7,450,000
Legal settlement	2,028,115
Compensated absences	1,516,029
Notes payable to CRIM	877,346
Accrued interest	130,805
Due to Puerto Rico Treasury Department	63,338
Due to Puerto Rico Labor Department	56,960
Advances from CRIM	<u>43,127</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	 <u>\$12,165,720</u>

5. DEPOSITS - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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 is 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 deposits at GDB of approximately \$772,000 that are restricted principally for capital projects, and the \$1.9 million in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its investments in one (1) bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

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, 2009**

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 8.83% for real property and 6.83% 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%	1.78%
Additional special property - municipal	2.00%	1.25%
Discounts made by state to taxpayer	< <u>.20%</u> >	< <u>.20%</u> >
	<u>8.83%</u>	<u>6.83%</u>

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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 ensuring 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 ends. 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.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2008-09, but not the final settlement as the six months period after fiscal year ends, 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 final settlement already received, during the year ended June 30, 2009, the amount received by CRIM exceeded the amount collected by the CRIM for the same period by approximately \$43,000. Such amount is presented as due to CRIM in the basic financial statements. (Refer to Note 15)

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, 2009. The annual Municipal License Tax is determined based on the gross

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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 \$283,000, corresponding to the next fiscal year municipal license.

8. SALES AND USE TAXES

On July 29, 2007 the Commonwealth Legislature approved Act No. 80 ("Act 80") which imposed to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007 1% of the 1.5% will be collected by the Municipalities and the remaining .5% of the 1.5% will be collected by the Puerto Rico Department of Treasury.

Act 80 also provides for restrictions on the use of the resources (including the .5 of 1.5% collected by the Commonwealth Government) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs. Amount collected by the Commonwealth Government will be deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico ("GDB"), subject to restrictions imposed and distributed as follows:

- a. .2% of the .5% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act,
- b. .2% of the .5% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act and,

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

- c. .1% of the .5% will be deposited in a "Municipal Improvement Fund" to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local agencies:

Puerto Rico Electric Power of Authority	\$1,091,767
Puerto Rico Treasury Department (Christmas bonus)	156,010
Municipal Revenues Collection Center (Debt Service)	<u>64,358</u>
Total	<u>\$1,312,135</u>

10. INTERFUND TRANSACTIONS

a. Due from/to Other Funds

The due from and due to other funds balance as of June 30, 2009 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	General	\$ 978,403
General	HUD Programs	399,833
HUD Programs	General	<u>5,690</u>
Total		<u>\$1,383,926</u>

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

b. Interfund Transfers

Interfund transfers for the year ended June 30, 2009 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Debt Service	General	\$328,678
General	Debt Service	<u>11,730</u>
 Total		 <u>\$340,408</u>

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

11. CAPITAL ASSETS

a. Primary Government

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>Balance July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,687,516	\$ -	\$ -	\$ 1,687,516
Total capital assets, not being depreciated	<u>1,687,516</u>	<u>-</u>	<u>-</u>	<u>1,687,516</u>
Capital assets, being depreciated:				
Buildings and building improvements	8,844,020	270,556		9,114,576
Furniture and fixtures	447,141			447,141
Vehicles and equipment	1,911,540			1,911,540
Infrastructure	17,574,941	200,096		17,775,037
Total capital assets, being depreciated	<u>28,777,642</u>	<u>470,652</u>	<u>-</u>	<u>29,248,294</u>
Less accumulated depreciation for:				
Buildings and building improvements	2,659,391	205,601		2,864,992
Furnitures and fixtures	327,969	22,971		350,940
Vehicles and equipment	1,700,076	80,778		1,780,854
Infrastructure	4,827,706	431,245		5,258,951
Total accumulated depreciation	<u>9,515,142</u>	<u>740,595</u>	<u>-</u>	<u>10,255,737</u>
Total capital assets, being depreciated, net	<u>19,262,500</u>	<u>-</u>	<u>-</u>	<u>18,992,557</u>
Governmental activities capital assets, net	<u>\$ 20,950,016</u>	<u>\$ (269,943)</u>	<u>\$ -</u>	<u>\$ 20,680,073</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

b. Discretely Presented Component Unit

Activity for Brisas de Loíza Project for the fiscal year ended June 30, 2009 was as follows:

	<u>Balance July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2009</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:				
Buildings and building improvements	3,050,474	8,432		3,058,906
Furnitures and equipment	270,831	13,535		284,366
Total capital assets, being depreciated	<u>3,321,305</u>	<u>21,967</u>	<u>-</u>	<u>3,343,272</u>
Total accumulated depreciation	<u>1,974,978</u>	<u>119,534</u>		<u>2,094,512</u>
Total capital assets, being depreciated, net	<u>1,346,327</u>	<u>(97,567)</u>	<u>-</u>	<u>1,248,760</u>
Brisas de Loíza Project capital assets, net	<u>\$ 1,456,062</u>	<u>\$ (97,567)</u>	<u>\$ -</u>	<u>\$ 1,358,495</u>

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2009 are as follows:

Puerto Rico Treasury Department	\$1,586,177
Puerto Rico Electric Power Authority	910,708
Retirement System Administration	439,345
General Services Administration	32,243
Puerto Rico Water and Sewer Authority	<u>28,458</u>
Total	<u>\$2,996,931</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of approximately \$283,000 municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

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

Urban Development Action Grant (HUD)	\$23,991
Other governmental funds	<u>43,077</u>
Total	<u>\$67,068</u>

14. INTERGOVERNMENTAL REVENUES

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

15. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2009 are as follows:

a. Bonds

\$451,000 series of 1993, payable in annual installments of \$10,000 to \$32,000 until January 1, 2016, interest at 5%.	\$ 194,000
---	------------

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

\$100,000 series of 1996, payable in annual installments of \$3,000 to \$8,000 until January 1, 2015, interest at 4.5%.	\$ 41,000
\$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%.	1,390,000
\$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%.	580,000
\$400,000 series of 1997, payable in annual installments of \$10,000 to \$40,000 until July 1, 2016, interest at 6.75%.	225,000
\$130,000 series of 2004, payable in annual installments of \$5,000 to \$10,000 until July 1, 2028, interest ranging from 5.0% to 6.5%.	105,000
\$340,000 series of 2004, payable in annual installments of \$40,000 to \$60,000 until July 1, 2010, interest ranging from 5.0% to 6.5%.	115,000
\$95,000 series of 2004, payable in annual installments of \$2,000 to \$7,000 until July 1, 2028, interest ranging from 5.0% to 6%.	85,000
\$455,000 series of 2004, payable in annual installments of \$5,000 to \$35,000 until July 1, 2028, interest ranging from 5.0% to 6.5%.	415,000
\$925,000 series of 2005, payable in annual installments of \$30,000 to \$70,000 until July 1, 2024, interest ranging from 4.37% to 5%.	805,000
\$200,000 series of 2006, payable in annual installments of \$25,000 to \$65,000 until July 1, 2013, interest ranging from 4.23% to 4.73%.	125,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

\$820,000 series of 2007, payable in annual installments of \$5,000 to \$70,000 until July 1, 2032, interest ranging from 3.93% to 7.5%.	\$ 815,000
\$1,155,000 series of 2008, payable in annual installments of \$80,000 to \$160,000 until July 1, 2017, interest ranging from 3.93% to 7.5%.	1,075,000
\$900,000 series of 2008, payable in annual installments of \$120,000 to \$180,000 until July 1, 2014, interest ranging from 7.0% to 7.5%.	900,000
\$135,000 series of 2008, payable in annual installments of \$5,000 to \$20,000 until July 1, 2023, interest ranging from 5.40% to 7.5%.	135,000
\$445,000 series of 2008, payable in annual installments of \$75,000 to \$105,000 until July 1, 2013, interest ranging from 4.75% to 7.5%.	<u>445,000</u>
Total bonds payable	<u>\$7,450,000</u>

b. Note Payable - CRIM Law 42

Note payable of \$812,535 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in semi-annual aggregate principal installments of \$33,347 including an interest rate of 6.187%.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Debt service requirements in future years are as follows:

	Note Payable - CRIM Law 42	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 16,676	\$ 50,022
2011	18,724	48,974
2012	18,837	47,860
2013	20,020	46,677
2014	21,279	45,418
2015-2019	128,210	205,276
2020-2024	173,878	159,608
2025-2029	235,813	97,673
2030-2034	179,098	19,998
	<u>\$812,535</u>	<u>\$ 721,506</u>

c. Note Payable – CRIM (LIMS)

In 2001 the Municipality entered into a financing agreement with the CRIM in the amount of \$210,880 for the payment of the Municipality's share of the cost of a management information system (LIMS) acquired by the CRIM for the management of taxpayer's properties located in Puerto Rico. The note is payable in semiannual installments of \$141,142, including interest of 5.95% and is due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of the municipal

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

equalization fund send to the Municipality by the CRIM. Debt service requirements in future years are as follows:

	Note Payable - CRIM Loan Digitalization	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 24,791	\$ 3,493
2011	26,287	1,996
2012	13,733	409
	<u>\$ 64,811</u>	<u>\$ 5,898</u>

The annual debt service requirements for the bonds payable and note payable at June 30, 2009, are as follows:

	Bonds	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 557,000	\$ 324,743
2011	598,000	430,269
2012	576,000	391,931
2013	623,000	352,061
2014	624,000	309,807
2015-2019	2,017,000	1,071,884
2020-2024	1,533,000	574,123
2025-2029	672,000	240,625
2030-2034	250,000	39,375
	<u>\$ 7,450,000</u>	<u>\$ 3,734,818</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

d. Other Long-Term Liabilities

- Due to Puerto Rico Treasury Department

Due to Puerto Rico Treasury Department represents property tax advances, payable in monthly installments of \$2,639 until 2010.

As described in Note 6, the Municipality levies an annual special tax of 2.00% 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	\$ 7,186,000	\$ 580,000	\$ 316,000	\$ 7,450,000	\$ 557,000
Note payable - CRIM Law 42	828,224		15,639	812,535	16,676
Note payable - CRIM Loan Digitalization	88,190		23,379	64,811	24,791
Total governmental activities	8,102,414	580,000	355,068	8,327,346	598,467
Other long-term liabilities:					
Due to Puerto Rico Treasury Department	95,007		31,669	63,338	31,669
Due to Puerto Rico Labor Department	27,131	29,829		56,960	31,020
Due to CRIM	-	43,127		43,127	
Federal Emergency Management Administration	75,734		75,734	-	
Compensated absences	1,728,249		212,220	1,516,029	186,160
Legal settlement	2,068,115		60,000	2,028,115	60,000
Total other long-term liabilities	4,014,236	72,956	379,623	3,707,569	308,849
Total noncurrent liabilities, governmental activities	\$ 12,116,650	\$ 652,956	\$ 734,691	\$ 12,034,915	\$ 907,316
Component Unit:					
Brisas de Loíza Project mortgage payable	\$ 2,019,621	\$ -	\$ 25,159	1,994,462	\$ 27,460

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

16. 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 will 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, 2009

(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 be 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, 2009

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' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2009 was approximately \$496,000. The Municipality total payroll for all employees was approximately \$5.7 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

17. 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.

18. 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, 2009 was approximately \$23,000.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

19. 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 it 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.

20. COMMITMENTS

The Municipality of Loíza had several outstanding or planned construction projects as of June 30, 2009. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$3.3 million.

21. RESTATEMENT

a. Net Assets

The beginning balance of net assets as of July 1, 2008 has been restated as follows:

Net assets at beginning of year, as previously reported	\$ 3,040,224
Adjustment to correct overstatement of interest receivable	<u>(41,577)</u>
Net assets at beginning of year, as restated	\$ <u>2,998,647</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

b. Fund Balance

The beginning fund balance of the debt service fund has been restated as follows:

Beginning fund balance, as previously reported	\$ 1,890,408
Adjustment to correct overstatement of interest receivable	<u>(41,577)</u>
Beginning fund balance, as restated	<u>\$1,848,831</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<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 program:		
Section 8 Housing Choice Vouchers	14.871	\$ 35,179
Pass-through State -Commissioner Office of Municipal Affairs - Community Development		
State Block Grant Program - SBGP	14.228	706,740
Pass-through Municipality of San Juan Housing Opportunities for Persons with AIDS (HOPWA)	14.241	95,069
Subtotal U.S. Department of HUD		<u>836,988</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through Puerto Rico Family Department Child Care and Development Block Grant	93.575	117,397
Subtotal U.S. Department of HHS		<u>117,397</u>
U.S. Department of Homeland Security		
Pass-through Puerto Rico Department of Justice - Office for the Domestic Preparedness Homeland Security Grant Program	96.067	132,487
Subtotal U.S. Department of Homeland Security		<u>132,487</u>
TOTAL		<u>\$ 1,086,872</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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	\$ 836,988
Federal expenditures included within the other nonmajor governmental funds	<u>249,884</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$1,086,872</u>



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis Rivera Zúñiga
CPA Zoraida Cruz Claudio

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS 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 governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Loíza as of and for the year ended June 30, 2009, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated December 2, 2009. The report on the basic financial statements was qualified because the accounting records of the Municipality related to accounts payable and interfund transactions were not adequate. 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.

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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, included as items 9a and 9b. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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 agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Municipality of Loíza in a separate letter dated December 2, 2009.

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

San Juan, Puerto Rico
December 2, 2009

Ortiz, Rivera, Rivera & Co.

The stamp 2479454 was affixed
to the original of this report.



-51-

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Luis Rivera Zúñiga
CPA Zoraida Cruz Claudio

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants

**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, 2009. Municipality of Loíza's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Loíza's management. Our responsibility is to express and opinion on Municipality of Loíza's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Loíza's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that

our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Municipality of Loíza's compliance with those requirements.

In our opinion, Municipality of Loíza complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 09-1 thru 09-2.

Internal Control over Compliance

The management of Municipality of Loíza is responsible for establishing and maintaining effective internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Municipality's internal control. We noted no matters involving the internal control over compliance that we consider to be material weaknesses.

Municipality's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Municipality's response and, accordingly, we express no opinion on it.

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, Rivera, Rivera & Co.

San Juan, Puerto Rico
December 2, 2009

The stamp 2479455 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a qualified opinion on the financial statements of the Municipality of Loíza.
- b. Significant deficiencies relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards, 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 no significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Loíza express an unqualified opinion.
- f. Audit findings' related to the major federal award programs for Municipality of Loíza are reported in number 3 of this schedule.
- g. The program tested as major program was:

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, 2009**

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

09-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 accounting principles generally accepted in the United States of America.

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.

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 accounting principles generally accepted in the United States of America.

This plan should provide for:

- a. 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

- b. 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.
- c. The preparation of periodic financial reports to be submitted to the Finance Director and all other interested entities.
- d. Adequate training of all accounting personnel to improve the understanding of the system and to promote operational efficiency.
- e. Reconciliation of financial records with the reports prepared and submitted to the federal government.

09-b - Budget

The Municipality's system of internal control relating to the Budgeting function does not adequately prevent operating management from incurring expenditures in excess of the level of funds appropriated and available. The Municipality closed its fiscal year ended June 30, 2009 with an unreserved fund balance deficiency in the general fund approximately \$7.4 million.

This occurs because the budgeting system does not reflect actual available revenues and therefore cannot prevent the obligation of expenditures for which current resource will not be available.

Article 8.004 (b) of the Municipalities Law establishes that the Municipality cannot obligate or spend funds in excess of the appropriations or the ensuing fiscal year. In addition, according to Chapter IV, Section 17, of the Basic Standards, the responsibility of oversight to prevent deficits in any municipal fund rest with the Finance Director.

The continued occurrence of this situation could result in the eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Recommendation

The Municipality should revise and amend the budget as current information related to collections of budgeted revenues became available.

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

a. SBGP - CFDA No. 14.228

• **Condition 09-1**

The Municipality has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Municipality does not perform a reconciliation of the physical inventory with the accounting records. In addition, equipment acquired during the year is not properly labeled and identified.

Criteria

As per CFR 24, Part 85.32 (4)(d) property records will be accurately maintained. The records should include, for each item of equipment, a description of the equipment including serial number, an identification number, identification of the grant under which the recipient acquired the equipment, the information needed to calculate the federal share of the equipment, the acquisition date and unit acquisition cost, the location, use and condition of the equipment. In addition, states that every two years, at a minimum, a physical inventory should be conducted and the results should be reconciled with the property records to verify the existence, current utilization, and continued need for the equipment. Any discrepancies between quantities determined by the physical inspection and those shown in the accounting records should be investigated to determine the causes of the differences.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Cause

The Municipality does not maintain accurate records for acquisitions and dispositions for property acquired with federal awards.

Effect

The Municipality is exposed to the risk of possible unauthorized use and disposition of equipment due to the lack of internal controls and adequate property and equipment records. The possible misappropriation of the equipment acquired with federal funds could result in disallowed costs.

Recommendation

The Municipalities' management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up on inventory discrepancies. In addition, the Municipality's management should review all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

Questioned Costs

\$ -0-

• **Condition 09-2**

The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7). For the construction projects selected for testing, we noted that the contracts do not have the prevailing wage rate clause updated. In addition, none of the contracts selected have the certified payrolls.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Criteria

The Davis Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7).

Cause

The program's management failed to monitor the laborers employed by contractors to assure they are paid the prevailing wage rates and includes the certified payrolls.

Effect

The continued failure to implement internal controls and ensure compliance with the above requirement may expose the Municipality to cost disallowances.

Recommendation

The Municipality should require to the construction contractors to make interviews to laborers to assure that wages paid are not less than those established by the DOL.

Questioned Costs

\$ -0-

**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, 2009**

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, 2009**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p>SBGP CFDA No. 14.228</p>	<p>Condition 07-1</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>Condition was corrected.</p>
<p>SBGP CFDA No. 14.228</p>	<p>Condition 07-2</p> <p>The Municipality has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Municipality does not perform a reconciliation of the physical inventory with the accounting records. In addition, equipment acquired during the year is not properly labeled and identified.</p>	<p>Condition still continues.</p>
<p>SBGP CFDA No. 14.228</p>	<p>Condition 07-3</p> <p>The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7). For the construction projects selected for testing, we noted that the contracts do not have the prevailing wage rate clause updated. In addition, none of the contracts selected have the certified payrolls.</p>	<p>Condition still continues.</p>

**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, 2009**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
<p>SBGP CFDA No. 14.228</p>	<p>Condition 08-1</p> <p>The Municipality has deficiencies in the execution of property management procedures. During our test of real property and equipment management, we found that the Municipality does not perform a reconciliation of the physical inventory with the accounting records. In addition, equipment acquired during the year is not properly labeled and identified.</p>	<p>Condition still continues.</p>
<p>SBGP CFDA No. 14.228</p>	<p>Condition 08-2</p> <p>The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7). For the construction project selected for testing, we noted that the contracts do not have the prevailing wage rate clause updated. In addition, none of the contracts selected have the certified payrolls.</p>	<p>Condition still continues.</p>

CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Loíza
G.P.O. Box 508
Loíza, Puerto Rico 00772

Director de Finanzas

Teléfonos: (787) 876-1040
(787) 256-1525

CORRECTIVE ACTION PLAN

December 2, 2009

Cognizant or Oversight Agency for Audit:

Municipality of Loíza respectfully submits the following corrective action plan for the year ended June 30, 2009

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

Audit period: Fiscal year ended June 30, 2009

The findings from the June 30, 2009 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 09-1: SBGP - CFDA 14.228

Reportable Condition: See Condition 09-1

Recommendation

The Municipalities' management should determine that proper procedures are in place to ensure that property purchased with federal funds is identified and conduct periodic inventories and follow up on inventory discrepancies. In addition, the Municipality's management should review all dispositions of property to ensure appropriate valuation and reimbursement to federal awarding agencies.

"Loíza Capital de la Tradición"

Action Taken

Instructions have been given to the Property Division Director that all additions and dispositions be recorded properly in the subsidiary of property. In addition, a physical inventory observation will be performed.

Finding 09-2: SBGP - CFDA 14.228

Reportable Condition: See Condition 09-2

Recommendation

The Municipality should require the construction contractors to make interviews to laborers to assure that wages paid are not less than those established by the DOL.

Action Taken

The Municipality will establish procedures to coordinate with the contractors the realization of interviews to the employees to assure that wages paid are not less than those established by the U. S. Department of Labor.

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mr. Jorge Marciano, Finance Director, at (787) 876-3570.

Cordially,


Jorge Marciano Dipini
Finance Director