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

MUNICIPIO DE LOIZA
AUDITORÍA 2009-2010

30 DE JUNIO DE 2010

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2010

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2010

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LOÍZA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

Carlos R. Díaz Negrón

Certified Public Accountant

MEMBER:
American Institute of Certified Public Accountants
Puerto Rico Society of Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of the governmental activities, each major funds, and the aggregate remaining fund information of the **Municipality of Loíza** as of and for the year ended June 30, 2010 which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Brisas de Loíza Project as of June 30, 2010. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Brisas de Loíza Project, is based solely on the report of the other auditors.

Except as discussed in the following third and fourth paragraphs, below we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable of financial audit contained in Governmental Audit standards, issued by the comptroller Governmental 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 payable 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 aggregate remaining funds information as due form/due to other funds, stated at $1,262,595 in the total governmental funds column of the balance sheet.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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 $1,767,771 in the balance sheet of the governmental funds.

In our opinion, based on our audit and the report of other auditors, except for the effect of such adjustment, if any as might have been determined to be necessary had we been able to obtain sufficient evidence to support and satisfy ourselves about to accounts payable and amount of interfund transaction, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Loíza** as of June 30, 2010, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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 purposed of additional analysis as required by U.S. Offices 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 43 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

In accordance with Governmental Auditing Standards, we have also issued our report dated March 25, 2011 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.

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

March 25, 2011
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2013

The stamp No. **2564420** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the ***Municipality of Loíza*** 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, 2010**. 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 **$26,209,725** and **$8,754,083** respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to **$22,986,694** ***(88 percent of total Municipality's assets)***.

- The Municipality in the same activities has reported total liabilities amounting to **$17,455,642** in the accompanying statement of net assets, of which the most significant liabilities are bonds, notes and other long-term debt amounting to **$12,862,130** ***(72 percent of total liabilities)***.

- The Municipality has reported total revenues amounting to **$15,800,182** in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds, for the Fiscal Year Ended **June 30, 2010**. The most significant revenues in this statement are grants and entitlements and taxes were amounting to **$9,495,865 (60 percent of total revenue) and $4,534,511** ***(28 percent of total revenues)***, respectively.

- The Municipality has reported a net change in net assets of revenues over (under) expenditures amounting to **$(638,635)** in the accompanying statement of activities.

- The Municipality's governmental funds reported combined ending fund balances of **$114,605.**

- The Municipality has reported a deficit for the general fund amounting to **($3,412,009)**.

- The Municipality has reported an excess of revenues and other financing sources over under expenditures and other financing uses amounting to **$565,998 and ($1,171,227)** in the governmental funds and combined total 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, 2010** 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, 2010**. 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)** permanent improvement fund 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, 2010)**. 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 three major funds: **(1)** the general fund **(2)** the debt service fund and **(3)** permanent improvement 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 **$8,754,083** at **June 30, 2010**.

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 Loíza Project:

Condensed Statement of Net Assets:

	June 30, 2009	June 30, 2010
Current assets	$ 6,443,934	$ 3,223,031
Capital assets	22,038,568	22,986,694
Total assets	**28,482,502**	**26,209,725**
Current liabilities	8,806,964	4,733,512
Non-current liabilities	14,029,377	12,722,130
Total liabilities	**22,836,341**	**17,455,642**
Net assets/(liabilities):		
Invested in capital assets, net of related debt	12,506,641	18,369,836
Restricted	5,237,406	4,646,303
Unrestricted	(12,097,886)	(14,262,056)
Total net assets	**$ 5,646,161**	**$ 8,754,083**

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:

	June 30, 2009	June 30, 2010
Revenues:		
Program revenues:		
Charges for services	$ 1,007,662	$ 400,497
Operating grants and contributions	857,998	841,627
Capital grants and contributions	4,208,716	1,860,378
	6,074,376	3,102,502
General revenues:		
Property taxes	727,644	2,535,891
Municipal license taxes	655,839	607,088
Sales and use taxes	866,010	1,089,764
Construction excise tax		301,768
Grants and contributions	8,275,957	6,793,860
Rent		29,365
Licenses and permit		10,888
Interest	39,991	5,650
Other	1,507,365	1,722,074
Total revenues	**$18,147,182**	**$16,198,850**
Expenses:		
General administration	5,943,293	6,559,891
Public safety	984,063	1,128,295
Education, culture and recreational	474,112	969,592
Public relation, tourism and citizen affairs		757,054
Public works and sanitation	5,415,447	4,684,787
Health and welfare	755,759	2,080,057
Depreciation expense	740,595	
Interest	374,765	194,926
	14,688,034	16,374,602
Business type-activities:		
Housing	442,006	349,259
Interest		113,624
Total expenses	**$15,130,040**	**$16,837,485**
Change in net assets	3,017,142	(638,635)
Net assets – at beginning of year, as restated	**$ 6,375,579**	**$ 9,392,718**
Net assets – at end of year	**$ 9,392,718**	**$ 8,754,083**

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:

	June 30, 2009	June 30, 2010
Total Assets – Major Funds	$ 7,447,993	$ 2,883,390
Total Assets – Nonmajor Funds	$ 111,342	$ 1,389,350
Total assets	**$ 7,559,335**	**$ 4,272,740**
Total Liabilities – Major Funds	$ 9,976,983	$ 3,941,565
Total Liabilities – Nonmajor Funds	$ 43,077	$ 216,570
Total liabilities	**$ 10,020,060**	**$ 4,158,135**
Fund Balances – Major Funds	$ (2,528,990)	$ (1,058,175)
Fund Balances – Nonmajor Funds	$ 68,265	$ 1,172,780
Total Fund Balance	**$ (2,460,725)**	**$ 114,605**

Condensed Statement of Operations – Governmental funds:

Total Revenues – Major Funds	$ 17,402,679	$ 14,232,276
Total Revenues – Nonmajor Funds	$ 340,336	$ 1,564,587
Total revenues	**$ 17,743,015**	**$ 15,796,863**
Total expenditures – Major Funds	$ 14,771,587	$ 15,771,285
Total expenditures – Nonmajor Funds	$ 304,243	$ 2,131,805
Total expenditures	**$ 15,075,830**	**$ 17,903,090**
Other financing sources (uses) Major	$ 580,000	$ 935,000
Other financing sources (uses) Nonmajor	-0-	$ -0-
Revenues Over (under) Expenses – Major	$ 3,247,185	$ (604,009)
Revenues Over (under) Expenses – Nonmajor	-0-	$ (567,218)
Fund Balance at beginning of year	**$ 5,707,910**	**$ 1,285,832**
Fund Balance at end of year	**$ (2,460,725)**	**$ 114,605**

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 **Loíza City Hall, Loíza, Puerto Rico**.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

	PRIMARY GOVERNMENT		
ASSETS	**GOVERNMENTAI ACTIVITIES**	**BUSINESS – TYPE ACTIVITIES**	**TOTAL**
Cash and cash equivalents	$ 447,997	$ 73,590	$ 521,587
Cash with fiscal agent	2,340,815		2,340,815
Account receivable, sales tax	65,945		65,945
Accounts receivable other agencies	155,388		155,388
Other assets		19,607	19,607
Restricted cash		119,689	119,689
Capital assets, net	21,664,230	1,322,464	22,986,694
Total Assets	$ 24,674,375	$1,535,350	$26,209,725
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued expenses	$ 1,878,377	$ 24,977	$ 1,903,354
Deferred revenue	354,562		354,562
Due to other agencies	773,207		773,207
Tenants' security deposits		11,733	11,733
Long-term debt:			
Due within one year	1,520,686	29,970	1,550,656
Due in more than one year	10,925,097	1,937,033	12,862,130
Total liabilities	15,451,929	2,003,713	17,455,642
Net Assets:			
Invested in capital assets, net of related debt	19,014,375	(644,539)	18,369,836
Restricted for:			
Debt service	3,231,818		3,231,818
Replacements and others		119,689	119,689
Capital project and others	1,294,796		1,294,796
Unrestricted	(14,318,543)	56,487	(14,262,056)
Total Net Assets	$ 9,222,446	$ (468,363)	$ 8,754,083

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

FUNCTIONS AND PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGE FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE)/ REVENUE
Governmental activities:					
General administration	$ (6,559,891)		$166,513		$ (6,393,378)
Public safety	(1,128,295)		42,380		(1,085,915)
Education, culture and recreational	(969,592)	$ 1,829	10,000		(957,763)
Public relation, tourism and citizen affairs	(757,054)				(757,054)
Public works and sanitation	(4,684,787)			$1,860,378	(2,824,409)
Health and welfare	(2,080,057)		622,734		(1,457,323)
Interest	(194,926)				(194,926)
Total governmental activities	(16,374,602)	1,829	841,627	1,860,378	(13,670,768)
Business type-activities:					
Housing	(349,259)	398,668			49,409
Interest	(113,624)				(113,624)
	(462,883)	398,668			(64,215)
Total	(16,837,484)	400,497	841,627	1,860,378	(13,734,983)

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Net (expense)/revenue	$(13,670,768)	$ (64,215)	$(13,734,983)
General revenue:			
Taxes:			
Property taxes	2,535,891		2,535,891
Municipal tax	607,088		607,088
Sales tax	1,089,764		1,089,764
Construction excise tax	301,768		301,768
Grants and entitlements	6,793,860		6,793,860
Rent	29,365		29,365
Licenses and permit	10,888		10,888
Interest	2,331	3,319	5,650
Other	1,722,074		1,722,074
Total general revenues	13,093,029	3,319	13,096,348
Changes in net assets	(577,739)	(60,896)	(638,635)
Net assets at beginning , as restated	9,800,185	(407,467)	9,392,718
Net assets at end	$ 9,222,446	$(468,363)	$ 8,754,083

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2010

	GENERAL FUND	DEBT SERVICE	PERMANENT IMPROVEMENT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash:					
Cash in bank	$ 260,038		$ 75,257	$ 112,702	$ 447,997
Cash with fiscal agent	11,185	$2,200,965		128,665	2,340,815
Receivables:					
Governmental agencies				155,388	155,388
Other funds			270,000	992,595	1,262,595
Sales tax	35,092	30,853			65,945
Total assets	306,315	2,231,818	345,257	1,389,350	4,272,740
Liabilities:					
Accounts payable and accrued expenses	1,356,706		223,241	187,824	1,767,771
Deferred income	325,816			28,746	354,562
Due to other fund	1,262,595				1,262,595
Due to other agencies	773,207				773,207
Total liabilities	3,718,324		223,241	216,570	4,158,135
Fund balance					
Reserved for encumbrances			122,016		122,016
Unreserved	(3,412,009)	2,231,818			(1,180,191)
Unreserved reported in non major				1,172,780	1,172,780
Total fund balance	(3,412,009)	2,231,818	122,016	1,172,780	114,605
Total liabilities and fund balance	$ 306,315	$2,231,818	$345,257	$1,389,350	$4,272,740

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

Fund balances in governmental funds	$ 114,605
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	21,664,230
Long-term liabilities and accrual expenses are not due and payable in the current period and therefore are not reported in the governmental funds:	
Bonds and notes payable	(7,693,000)
Compensated absences	(1,923,385)
Claims and judgments	(1,968,115)
Accrued interest	(110,606)
Advance from CRIM	(43,127)
Notes payable CRIM	(818,156)
Net assets of governmental activities	$ 9,222,446

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	GENERAL FUND	DEBT SERVICE	PERMANENT IMPROVEMENT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:					
Taxes:					
Property taxes	$ 1,745,204	$ 790,687			$ 2,535,891
Municipal taxes	607,088				607,088
Sale tax	757,420	332,344			1,089,764
Construction excess tax	301,768				301,768
Licenses and permits	10,888				10,888
Interest	480	1,851			2,331
Rent	29,365				29,365
Grants and entitlements	6,793,860		$ 1,139,247	$ 1,564,597	9,497,694
Other	1,722,074				1,722,074
Total Revenues	11,968,147	1,124,882	1,139,247	1,564,587	15,796,863
Expenditures:					
General administration	6,441,834			11,339	6,453,173
Public safety	1,000,925			69,920	1,070,845
Education and recreational	611,059			309,164	920,223
Public works	1,920,057		2,570,202	1,368,813	5,859,072
Community development	718,506				718,506
Health and welfare	1,601,577			372,569	1,974,146
Debt service:					
Principal		692,000			692,000
Interest		215,125			215,125
Total expenditures	12,293,958	907,125	2,570,202	2,131,805	17,903,090
Excess of revenue over expenditures	(325,811)	217,757	(1,430,955)	(567,218)	(2,106,227)

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010

	GENERAL FUND	DEBT SERVICE FUND	PERMANENT IMPROVEMENT FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Excess of revenues over (under) expenditures	$ (325,811)	$ 217,757	$(1,430,955)	$ (567,218)	$(2,106,227)
Other financing sources (uses):					
Operating transfer in	1,206	44,397			45,603
Operating transfer out	(44,397)	(1,206)			(45,603)
Proceed from loan	935,000				935,000
Total other financing sources	891,809	43,191			935,000
Excess of revenues and other financing source over (under) expenditures and other financing sources	565,998	260,948	(1,430,955)	(567,218)	(1,171,227)
Fund balance at beginning of year	(3,978,007	1,970,870	1,552,971	1,739,998	1,285,832
Fund balance at end of year	$ (3,412,009)	$2,231,818	$ 122,016	$ 1,172,780	$ 114,605

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net change in fund balances – total governmental funds	$(1,171,227)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	1,488,619
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	(504,462)
Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources.	(935,000)
Governmental payments of long-term debts as expenditures, whereas the payment reduces the long-term obligations in the statement of activities:	
Notes and bonds	692,000
Note payable CRIM - Law 42	34,399
Note payable CRIM - Digitalization	24,791
Change in accruals which do not require the use of current financial resources:	
Interest	20,199
Claim and judgment	60,000
Accrued vacations	(407,356)
Due to Puerto Rico Department of Labor	56,960
Due to Puerto Rico Department of Treasury	63,338
Changes in Net Assets of Governmental Activities	$ (577,739)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
PROPERTY FUND STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

ASSETS

	BRISAS DE LOÍZA PROJECT
Current Assets:	
Cash	$ 73,590
Property and Equipment	1,322,464
Restricted deposits	119,689
Other Assets	19,607
	$1,535,350

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities:	
Current maturities of mortgage note	$ 29,970
Accounts payable and accrued expenses	24,977
	54,947
Long-term debt liabilities:	
Mortgage note, net of current maturities	1,937,033
Tenants deposits held din trust	11,733
	2,003,713
Net assets	(468,363)
	$1,535,350

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF PROPERTY FUND
YEAR ENDED JUNE 30, 2010

	BRISAS DE LOÍZA PROJECT
Revenues:	
Rent	$ 398,668
Financial	3,319
Total revenues	401,987
Expenses:	
Administrative	113,624
Utilities	4,659
Operating and maintenance	79,008
Taxes and insurance	51,201
Depreciation	123,191
Interest	91,200
Total Expenses	462,883
Change in net assets	(60,896)
Net assets, beginning of year	(407,467)
Net assets, and year	$(468,363)

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	BRISAS DE LOÍZA PROJECT
Change in net assets	$ (60,896)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	123,191
Increase or decrease in:	
Other assets	29,832
Accounts payable and accrued expense	(3,483)
Net cash provided by operating activities	88,644
Net cash provided by operating activities	
Cash flow from investing activities:	
Purchase of equipment	(87,160)
Additions to reserve for replacements and interest	56,553
Net cash used by investing activities	(30,607)
Cash flows from financing activities:	
Mortgage principal payments	(27,459)
Net cash used by financing activities	(27,459)
Net increase in cash	30,578
Cash at beginning of the year	43,012
Cash at ending of the year	$ 73,590

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

1. ORGANIZATION

The Municipality of Loíza (the Municipality) is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the governmental of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Legislative Body, which has thirteen members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant policies of the Municipality are described below.

Reporting entity

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Loíza, these include various services such as police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality's Legislative Body through the budgetary process.

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

Government wide and fund financial statements

Basic financial statements include both governments-wide and fund financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide statements

The government-wide financial statements (consists of the statement of net assets and the statement of activities) these statements report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b) 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.

Program-specific capital and operating grant and contributions consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Capital grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Restricted capital and operating grants and contributions are program revenues because they are specifically attributable to a program are reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

Fund financial statements

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.

The Municipality reports the following major governmental funds:

A) General Fund

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B) Debit service fund

The fund accounts for resources accumulated and payments made for principal and interest on long term general obligation debt of governmental funds.

C) Permanent Improvement Funds

This fund accounts for resources accumulated and payment made under a State Legislative Joint Resolution for the construction of capital projects.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statement of Net Assets and the Statement of Activities, both government and business like activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the 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.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation (continued)

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, 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.

Proprietary fund financial statements include a statement of net assets, a statement of revenues, expenses and changes in fund nets, and statements of cash flows for the proprietary fund which include a low income housing project know as Brisas De Loíza Project.

The Municipality has elected to not apply all statements and interpretation issued by FASB after November 30, 1989.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current of noncurrent) are include on the statement of net assets. The statement of revenues, expenses and change in fund net assets present increases (revenues) and decrease (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operating of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Cash, cash equivalents, cash with fiscal agent and investment

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash with fiscal agent in the governmental fund consists of unused proceeds from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Municipal Revenue Collection Center (CRIM) and restricted for the payment of the Municipality's debt service, as established by law.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

Interfund receivables and payables

Activities 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). Interfunds receivables and payables between funds within the governmental activities are eliminated in the statement of net assets.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

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

Infrastructure	25 - 50 years
Building and building improvement	20 - 50 years
Furniture and fixtures	5 - 10 years
Vehicles and equipment	5 - 20 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2010 amounted to approximately $227,091. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately $111,344 for workers compensation insurance covering all municipal employees.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed.

Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed.

Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Post employment benefits

Pursuant various Acts, the Municipality is required to cover annually the 3% increase (cost of living allowance) in the retirement plan of it's retires employees. Substantially all of the employees may become eligible for these benefits of they reach normal retirement to while working for the Municipality. For the fiscal year ended June 30, 2010, post employment benefits retirees amounted to $40,448. These benefits are recorded as expenditures when informed by the retirement plan.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates

3. PROPERTY TAX

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated value as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, where by a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30.

3. PROPERTY TAX (CONTINUED)

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 exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than $3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exception from the payment of personal property taxes of up to $50,000 of the assessed value to retailers having annual net sales of less than $150,000.

The rates are 8.83% for real property and 6.83 for personal property. The composition is as follows:

	Real	Personal
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 tax payer	<.20%>	<.20%>
	8.83%	6.83%

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2010, $325,816 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying financial statements.

5. SALE TAX

Pursuant to an amendment to Puerto Rico Internal Revenue Code, Act 117 of July 4, 2006, the Municipal Legislature approved the Ordinance 6, Series 2006-2007 to establish a city tax contribution, effective November 1, 2006, to 1.5% over all transactions of sales of goods and services made on Loíza's boundaries. According to the Ordinance, these new resources will be principally used in the following activities: repairs and improvements of Municipal roads, infrastructure and sport facilities, construction of curbs and sidewalk, purchases of heavy equipment.

Municipality of Loíza contracted a service organization to manage the imposition and collection of the sales tax.

Pursuant to the provisions of the Law Number 80 of July, 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, for all the municipalities in Puerto Rico, of which 1% will be collected by the municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of those funds will be deposited in the Puerto Rico Governmental Development Bank, as a redemption fund, for financing capital projects to the municipalities.

6. GRANTS AND ENTITLEMENTS REVENUE

Grants and entitlements revenue consists of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in other governmental funds.

7. DEFERRED REVENUE

Deferred revenue consists of the followings:

Municipal license tax collected in the fiscal year 2008-2009 corresponding to the following fiscal year	$325,816
Portion of grants received for which qualifying expenditures have not been incurred.	28,746
	$354,562

8. RESTRICTED DEPOSIT

Restricted cash in the business-type activities consists of:

Tenant security deposits	$ 11,733
Reserve for replacement	89,661
Reserve for taxes and other reserve	18,295
	$119,689

Under the regulatory agreement, Project is required to set aside amounts for the replacement of property and other Project expenditures approved by HUD. HUD – Restricted Deposits are held in separate accounts and generally are not available for operating purposes.

Tenant's Security Deposit and its accumulated interest are held in a separate bank savings account in the name of the Project, in compliance with USDA-RD and HUD requirements. Any amounts not returned to the tenant due to lease violations are transferred to the Project's general operating account.

9. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

Primary Government	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,687,516			$ 1,687,516
Capital assets being depreciated:				
Infrastructure	17,775,037	$ 165,845		17,940,882
Buildings, park and courts	9,114,576	1,322,774		10,437,350
Furniture and fixtures	447,141			447,141
Automobiles and equipment	1,911,540			1,911,540
Total capital assets being depreciated	29,248,294	1,488,619		30,736,913
Less accumulated depreciation for:				
Infrastructure	(5,257,757)	(270,996)		(5,528,753)
Buildings, parks and courts	(2,864,992)	(233,466)		(3,098,458)
Furniture and fixture	(350,940)			(350,940)
Vehicles	(1,782,048)			(1,782,048
Total	(10,255,737)	(504,462)		(10,760,199)
Total depreciable capital assets, net	18,992,557	984,157		19,976,714
Governmental activities capital assets net	20,680,073	984,157		21,664,230
Business-type activities:				
Capital assets net being depreciated:				
Land	109,735			109,735
Capital assets being depreciated:				
Building and improvements	(3,058,906)	73,000		3,131,906
Equipment	284,366	14,160		298,520
	3,343,272	87,160		3,430,432
Less accumulated depreciation:				
Building and improvements and equipment	(2,094,512)	(123,191)		(2,217,703)
Total depreciable capital assets, net	1,248,760	(36,031)		1,212,729
Business activities capital assets, net	1,358,495	(36,031)		1,322,464
	$22,038,568	$948,126		$22,986,694

9. CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs of the Municipality as follows:

	Governmental Activities	Business-Type Activities
General administration	$191,538	
Public safety	31,784	
Public works	173,905	
Education, culture and recreation	27,313	
Health, sanitation and welfare	58,595	
Public relation, tourism and citizen affairs	21,327	
Housing		$123,191
Total depreciation expense	$504,462	$123,191

10. LONG-TERM DEBTS

Long-term liability activity for the year ended June 30, 2010 was as follows:

Primary Government Governmental activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes	$ 7,450,000	$ 935,000	$692,000	$ 7,693,000	$ 573,000
Notes Payable CRIM - Law 42	812,535		34,399	778,136	26,287
Note Payable CRIM loan – Digitalization	64,811		24,791	40,020	18,272
	8,327,346	935,000	751,190	8,511,156	617,559
Other long-term debt:					
Compensated absences	1,516,029	407,356		1,923,385	800,000
Amount due to CRIM - 2007-08	43,127			43,127	43,127
Legal settlement	2,028,115		60,000	1,968,115	60,000
Puerto Rico Labor Department	56,960		56,960		
Puerto Rico Treasury Department	63,338		63,338		
Total	3,707,569	407,356	180,298	3,934,627	903,127
	12,034,915	1,342,356	931,488	12,445,783	1,520,686
Business-type activities:					
Mortgage payable	1,994,462		27,459	1,967,003	29,970
Total	$14,029,377	$1,342,356	$958,947	$14,412,786	$1,690,656

10. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

Bonds and notes:

$451,000 series if 1993, payable in annual installments of $25,000 to $32,000 until January 1, 2016, interest at 5%.	$ 170,000
$100,000 series of 1996, payable in annual installments of $6,000 to $8,000 until January 1, 2015, interest at 4.5%.	35,000
$1,685,000 series of 1999, payable in annual installments of $55,000 to $150,000 until July 1, 2023, interest ranging from 5.88% to 8%.	1,340,000
$655,000 series of 2002, payable in annual installments of $15,000 to $55,000 until July 1, 2026, interest ranging from 5% to 8%.	565,000
$400,000 series of 1997, payable in annual installments of $25,000 to $40,000 until July 1, 2016, interest at 6.75%.	205,000
$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%.	100,000
$340,000 series of 2004, payable in an installment of $40,000 to $60,000 on July 1, 2010, interest ranging from 5.0% to 6.5%.	60,000
$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%.	83,000
$455,000 series of 2004, payable in annual installments of $10,000 to $35,000 until July 1, 2028, interest ranging from 5.0% to 6.5%.	405,000
$925,000 series of 2005, payable in annual installments of $35,000 to $70,000 until July 1, 2024, interest ranging from 4.37% to 5%.	770,000
$200,000 series of 2006, payable in annual installments of $30,000 to $35,000 until July 1, 2013, interest ranging from 4.23% to 4.73%.	95,000
$820,000 series of 2007, payable in annual installments of $15,000 to $70,000 until July 1, 2032, interest ranging from 3.93% to 7.5%.	800,000

10. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

Bonds and notes:

$1,155,000 series of 2008, payable in annual installments of $95,000 to $160,000 until July 1, 2017, interest ranging from 3.93% to 7.5%.	$ 985,000
$900,000 series of 2008, payable in annual installments of $135,000 to $180,000 until July 1, 2014, interest ranging from 7.0% to 7.5%.	645,000
$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%.	130,000
$445,000 series of 2008, payable in annual installments of $80,000 to $105,000 until July 1, 2013, interest ranging from 4.75% to 7.5%.	370,000
$935,000 serial of 2010 payable in annual installments of $115,000 to $165,000 until July 1, 2016 interest at 7.0% due semiannually.	935,000
Total bonds payable	7,693,000
Business type-activities:	
Two mortgage notes collateralized with land and building, payable in monthly installment of $4,802 and $1,312, including interest at an annual rate of 9% 6.87% through December 2051.	1,967,003
	$9,660,003

10. LONG-TERM DEBTS (CONTINUED)

The annual debt service requirements to maturity bonds and notes payables of June 30, 2010 are as follows:

Governmental –type Activities:

Year ended June 30	Principal	Interest
2011	$ 573,000	$ 335,300
2012	691,000	437,256
2013	748,000	388,461
2014	754,000	337,057
2015	706,000	286,881
2016-2020	2,030,000	957,914
2021-2025	1,465,000	482,864
2026-2030	531,000	153,234
2031-2033	195,000	22,687
	$7,693,000	$3,401,654

Business-type activities:

Two mortgage notes are payable in monthly installments of $4,802 and $1,310 including interest at an annual rate of 9% and 6.857% through December 2051.

Mortgage payable consist of permanent residence loans provided by USDA–Rural Development. The land and building of the Project collateralized the mortgage note.

Mortgage notes payable mature as follows:

Year ended June 30	Principal
2011	$ 29,970
2012	32,712
2013	35,706
2014	38,975
2015	42,545
Thereafter	1,787,095
	$1,967,003

10. LONG-TERM DEBTS (CONTINUED)

Note payable – CRIM Law 42

Note payable of $778,136 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 $33,348 including an interest rate of 6.187%.

Year ended June 30	Principal	Interest	Total
2011	$ 9,275	$ 24,073	$ 33,348
2012	19,420	47,276	66,696
2013	20,640	46,056	66,696
2014	21,937	44,759	66,696
2015	23,315	43,381	66,696
2016-2020	140,483	192,997	333,480
2021-2024	190,521	142,959	333,480
2025-2029	258,384	75,096	333,480
2030-2032	94,161	5,883	100,044
	$778,136	$622,480	$1,400,616

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 in 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 $41,142, including interest of 5.95% and due on November 28, 2011. Amount is financed with unrestricted funds through withholdings from the advances of property tax and amounts of the municipal equalization fund send to the Municipality by the CRIM. Debt service requirements in future years are as follows:

	Principal	Interest	Total
2011	$26,287	$1,996	$28,283
2012	13,733	409	14,142
	$40,020	$2,405	$42,425

11. RETIREMENT SYSTEM

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth and its instrumentalities (the "Retirement System"), created pursuant to Act. No. 447 of May 15, 1951, as amended, is a cost-sharing multiple employer defined benefit pension plan sponsored by, and reported as a component unit of the Commonwealth. All regular employees of the Municipality hired before January 1, 2000 and under 55 years of age at the date of employment became members of the Retirement System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

The Retirement System provides retirement, death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation. Disability benefits are available to members for occupational and non-occupational disabilities. However, a member must have at least ten years of service to receive non-occupational disability benefits.

Members who have attained at least 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitled to an annual benefit, payable monthly for life. The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined.

Commonwealth legislation requires employees to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary.

11. RETIREMENT SYSTEM

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among others, a defined contribution savings plan program (the "Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000 and former employees who participated in the defined benefit pension plan and are rehired on or after January 1, 2000 become members of a Program as a condition to their employment received a refund of their contributions. In addition, employees who at December 31, 1999 were participants of the defined pension plan, had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to his/her individual account established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semi-annually.

The Municipality is required by Act No. 305 to contribute 9.275% of the participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in the participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in the participant's account will be paid in a lump-sum to his/her beneficiaries. Participants have the option of a lump-sum or purchasing an annuity contract in case of permanent disability.

Total employees and employer contributions to the above mentioned plans during the year ended June 30, 2010 amounted to approximately $298,992 and $342,035, respectively. This amount represented the required contribution for the corresponding year.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2010, a copy of which can be obtained from the Retirement System.

12. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

The Municipality is defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations will not have a material adverse effect on the Municipality's financial position .

13. MUNICIPAL LANDFILL

State and federal laws and regulations requires to the Municipality to carry out certain closure work when it stops accepting waste and to perform certain maintenance and monitoring functions at site in the following years. In accordance with GASB No. 18 "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs" the Municipality must has to perform a study of the closing and post closing costs in order to recognize a provision for those costs.

The Municipality operated a solid waste landfill that was closed during 1994. Total closure costs incurred as of June 30, 2010 were approximately $1,300,000. The closure costs incurred were mostly provided by federal awards under the State Block Grant Program.

The Municipality is still in process of performing tests in the landfill site in order to assess a final settlement of closure and post-closure costs. A preliminary estimate of these costs as of June 30, 2010 amounted to $1,360,000. Accordingly, a provision for future closure and post closured costs was recognized in the accompanying financial statements.

14. SUBSEQUENT EVENTS:

On October 14, 2010 the Governmental Debarment Bank of Puerto Rico approved o loan amounting $735,000 for the payment of operation accounts payable. The note will be payable in annual installment through 2035 plus interest at prime plus 1.5% (non exceeding 6%). The note will be paid with sales tax redemption fund.

15. RESTATEMENTS:

The balance of net assets and fund balance as reported as of June 30, 2009 have been restated as follows:

	Net Assets	Fund Balance General Fund	Fund Balance Debt Service	Fund Balance Other
Net assets (deficiency) and fund balance as reported as of June 30, 2009	$6,053,628	$(7,336,461)	$1,982,600	$1,340,165
To adjust overstatement of accounts payable	2,932,327	2,932,327	3,358,454	
To correct overstatement of due to other fund	825,960	426,127		399,833
To correct overstatement of assets	(11,730)		(11,730)	
	$9,800,185	$3,978,007	$1,970,870	$1,739,998

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2010

	GENERAL FUND			
	ORIGINAL BUDGET	AMMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenues:				
Taxes:				
Property taxes	$ 1,745,204	$ 1,745,204	$ 1,745,204	
Municipal tax	643,424	643,424	607,088	$ (36,336)
Sales tax	782,496	782,496	593,726	(188,770)
Construction excise tax	830,000	830,000	301,768	(528,232)
Licenses and permits	5,000	5,000	10,888	5,888
Interest	20,000	20,000	480	(19,520)
Rent	25,200	25,200	29,365	4,165
Grants and entitlements	6,055,333	6,055,333	6,192,295	136,962
Other	704,000	704,000	1,627,514	923,514
Total revenues	10,810,657	10,810,657	11,108,328	297,671
Expenditures:				
General administration	5,352,110	5,352,110	5,751,373	(399,263)
Public safety	1,175,657	1,175,657	1,000,925	174,732
Education, culture and recreational	540,194	540,194	611,060	(70,866)
Public relation, tourism and citizens affairs	713,936	713,936	719,027	(5,091)
Public works and sanitation	1,536,088	1,536,688	1,786,300	(249,612)
Health, sanitation and welfare	1,492,072	1,492,072	1,601,577	(109,505)
Total expenditures	10,810,657	10,810,657	11,470,262	(659,605)
Excess of expenditures over revenues			$ (361,934)	$(361,934)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2010

1. BUDGETS AND BUDGETARY ACCOUNTING

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.

2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.

3) Prior to June 13, the budget is legally enacted through passage of an ordinance.

4) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.

5) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

Adjustments necessary to reconcile the revenues and expenditures of the General Fund at the end of the year, from the generally accepted accounting principles to budgetary basis, are as follows:

Excess of expenditures over revenues, budgetary basis	$(361,934)
Proceed from loan not included in budget	935,000
Adjustments to accounts payable and accrued expenses to adjust expenses from budgetary basis to modified accrual basis	(823,696)
Adjustments to accounts receivable	601,565
Other adjustments	215,063
Excess of revenues and other financial sources under expenditure and other financial sources per generally accepted accounting principle	$ 565,998

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

	NUMBER	DISBURSEMENT
US Department of Housing and Urban Development		
Passed through:		
Municipal Service Administration:		
Community Development Block Grant	14.228	$ 474,972
Municipality of San Juan Housing Opportunities for Persons with AIDS (HOPWA)	14.241	78,326
Puerto Rico Department of Family:		
Shelter Plus Care	14.238	56,005
ARRA-Homeless Prevention and Rapid Re-Housing Program	14.262	129,590
Direct Program:		
Section 8 – Housing Choice Vouchers	14.871	50,514
		789,407
US Department of Health and Human Services		
Passes through:		
PR Department of Family:		
Child Care and Development Block Grant	93.575	288,626
ARRA – Child Care and Development Block Grant	93.713	64,833
		353,459
US Department of Homeland and Security		
Passes through:		
PR Department of Justice:		
Homeland Security Grant Program	97.067	42,380
		42,380
		$1,185,246

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Loíza and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

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

Carlos R. Díaz Negrón

Certified Public Accountant

MEMBER:
American Institute of Certified Public Accountants
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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 Legislative Body
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 Municipality of Loíza, Puerto Rico, as of and for the year ended June 30, 2010, which collectively comprise the Municipality of Loíza, Puerto Rico's basic financial statements and have issued our report thereon dated March 25, 2011. Others auditors audited the financial statements of the Brisas de Loíza Project, as described in our report on Municipality of Loíza, Puerto Rico' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting of compliance and other matters that are reported on separately by those auditors. The report on basic financial statements was qualified, because the accounting records of Municipality related to accounts payable and interfund transactions were not adequate. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Municipality of Loíza, Puerto Rico's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Municipality of Loíza, Puerto Rico's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Loíza, Puerto Rico'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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. 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 material weakness in internal control over financial reporting. Findings 1-10 to 2-10.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Loíza, Puerto Rico's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 1-10 to 2-10.

We noted certain matters that we reported to management of Municipality of Loíza, Puerto Rico, in a separate letter dated March 25, 2011.

This report is intended solely for the information and use of management, City Council, others within the entity, and 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.

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

March 25, 2011
Aguas Buenas, Puerto Rico

License No. 1339
Expires December 1, 2013

The stamp No. **2564421** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

Carlos R. Díaz Negrón

Certified Public Accountant

MEMBER:
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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 Legislative Body
Municipality Of Loíza
Loíza, Puerto Rico

Compliance

We have audited the compliance of **Municipality of Loíza, Puerto Rico**, 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, 2010. Municipalities of Loíza, Puerto Rico'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, Puerto Rico's management. Our responsibility is to express an opinion on Municipality of Loíza, Puerto Rico's compliance based on our audit.

Municipality of Loíza, Puerto Rico' basic financial statements include the operations of Brisas de Loíza Project, which expensed $2,429,886 in federal awards which is not included in the schedule during the year ended June 30, 2010. Our audit described below did not include the operations of Brisas de Loíza Project because Municipality of Loíza, Puerto Rico engaged other auditors to perform an audit in accordance with OMB A-133.

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, Puerto Rico'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 of Municipality of Loíza, Puerto Rico's compliance with those requirements.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE (CONTINUED)

In our opinion, Municipality of Loíza, Puerto Rico, 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, 2010. However, the results of our auditing procedures also disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 3-10.

Internal Control Over Compliance

Management of Municipality of Loíza, Puerto Rico, 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, Puerto Rico's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Municipality of Loíza, Puerto Rico's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We considered the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned cost as items 3-10 to be significant deficiency.

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

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE (CONTINUED)

This report is intended solely for the information and use of management, Municipal Legislature, others within the entity, 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.

CARLOS R. DIAZ NEGRON
CONTADOR PUBLICO AUTORIZADO
PUERTO RICO

March 25, 2011
Aguas Buenas, Puerto Rico

License No. 1339
Expire December 1, 2013

The stamp No. **2564422** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	**Qualified**	
Internal control over financial reporting:		
• Material weakness identified?	X yes	___ no
• Significant deficiency identified that is not considered to be material weaknesses?	___ yes	X no
Noncompliance material to financial statement noted?	X yes	___ no

Federal Awards

Internal control over major programs:		
• Material weakness identified?	___ yes	X no
• Significant deficiency identified that are not considered to be material weakness	X yes	___ no
Type of auditor's report issued on compliance for major programs	**Unqualified**	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	X yes	___ no

Identification of major programs:

CFA Number(s)	Name of Federal Program
14.228	Community Development Block Grants

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Audit qualified as low-risk audited?	___ yes	X no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 01-10 - 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 (debit 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 Statements No. 34.

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 govermment.

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 02-10 - 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, 2010 with an unreserved fund balance deficiency in the general fund approximately $3.4 million.

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

Article 8.004 (b) on 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 of elimination of municipal services since future revenues will need o be used to pay for accumulated liabilities.

Recommendation

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No. 3-10 – Procurement and Suspension and Debarment

Federal Program

CFDA – 14.228 Community Development Block Grant

Compliance requirement:

Procurement and Suspension and Debarment

Category:

Compliance and Internal Control

Condition:

As part of our audit procedures we examined 8 disbursements to test the compliance with the Procurement and Suspension and Debarment requirement for Community Development Block Grant program. In 4 of the 8 disbursements amounting $338,898 the Municipality did not comply with Suspension and Debarment requirement and in one disbursement amounting to $30,000 the Municipality did not comply with the procurement requirement.

Criteria:

Procurement:

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Local governments and Indian tribal governments which are not subrecipients of States will use their own procurement procedures provided that they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.

All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding No. 3-10 – Procurement and Suspension and Debarment

Criteria (continued):

Suspension and Debarment:

2 CFR part 180 states that non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. CFR section 180.220 of the government-wide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Effect:

The Municipality could be exposed to administrative action by the grantor.

Questioned cost:

$30,000

Recommendation:

We recommend that the Municipality establishes an adequate internal control system to ascertain compliance with the Procurement and Suspension and Debarment requirement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
EXHIBIT – I
CORRECTIVE ACTION PLAN
FOR YEAR ENDED JUNE 30, 2010

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

FINDING NO. 3-10 - PROCUREMENT AND SUSPENSION AND DEBARMENT

PROGRAM DEFICIENCY	OBJECTIVES	KEY TASK/ ACTION ITEMS	OBSTACLES	RESOURCES	LEAD STAFF NAME AND POSITION	COMPLETION TARGET DATE	ACTUAL COMPLETION DATE	IMPLEMENTATION PROGRESS COMMENTS
The Municipality did not comply with the Procurement and Suspension and Debarment Act	Comply with this Law	The correct contract form including the new clause regarding the Procurement and Suspension and Debarment Act will be given to the Secretary's Office in order to comply with this requirement. This has to be used in future contracts. A General Service Administration (GSA) certification will be requested prior to the signature of the contract. This verification may be accomplished by checking the Excluded Parties list System (EPLS).	The Municipality could be exposed to administrative action by the grantor. Lack of Knowledge	Excluded Parties List System (EPLS).	Sra. Nancy Rodríguez Municipality's Secretary 787-787-3570	March 10, 2011	Pending	A copy of the contract will be send to the Municipality Secretary's Office including the new clause in order to comply with this requirement. Evidence will be submitted as soon as this is done.