

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE LUQUILLO
AUDITORIA 2000-01
30 DE JUNIO DE 2001

OFICIO DEL COMISIONADO
DE ASUNTOS MUNICIPALES
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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2001

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LUQUILLO

YEAR ENDED JUNE 30, 2001

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LUQUILLO

YEAR ENDED JUNE 30, 2001

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the **Municipality of Luquillo**, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 the provisions of the Office of Management and Budget 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 the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The **Municipality of Luquillo** accounting system and subsidiary records of property and equipment did not provide us sufficient competent evidence with respect to the amounts presented in the accompanying general-purpose financial statements. Therefore, we do not express an opinion on such amounts included in the general fixed assets account group.

INDEPENDENT AUDITORS' REPORT (Continued)

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to audit the general fixed assets account group, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the **Municipality of Luquillo** as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2001 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 4, 2001

Stamp No. 1785236 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO
COMBINED BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

| | GOVERNMENTAL FUND TYPES | | | | ACCOUNT GROUPS | | TOTALS (MEMORANDUM ONLY) |
|--|-------------------------|--------------------|--------------------|---------------------|-------------------------|---------------------------|-----------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | General Fixed Assets | General Long-term Debt | |
| ASSETS AND OTHER DEBITS | | | | | | | |
| Cash and cash equivalents | \$910,402 | \$757,354 | | \$584,590 | | | \$2,252,346 |
| Cash with fiscal agent | | 332,209 | \$1,457,085 | 492,908 | | | 2,282,202 |
| Intergovernmental receivables | 643,974 | | | | | | 643,974 |
| Federal grants receivable | | 151,636 | | | | | 151,636 |
| Due from other funds | 173,619 | | | | | | 173,619 |
| Property and equipment | | | | | \$13,151,281 | | 13,151,281 |
| Amount available in Debt Service Fund | | | | | | \$1,457,085 | 1,457,085 |
| Amount to be provided for retirement of general long-term debt | | | | | | 3,418,838 | 3,418,838 |
| Total assets and other debits | \$1,727,995 | \$1,241,199 | \$1,457,085 | \$1,077,498 | \$13,151,281 | \$4,875,923 | \$23,530,981 |
| LIABILITIES AND FUND EQUITY | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable and accrued liabilities | \$209,336 | \$106,503 | | | | | \$315,839 |
| Due to other funds | | 173,619 | | | | | 173,619 |
| Due to other governmental entities | 80,717 | | | | | \$1,489,121 | 1,569,838 |
| Deferred municipal license tax revenues | 400,141 | | | | | | 400,141 |
| Deferred federal grant revenues | | 333,975 | | | | | 333,975 |
| General obligation bonds | | | | | | 2,099,000 | 2,099,000 |
| Notes Payable | | | | | | 680,000 | 680,000 |
| Accrued compensated absences | | | | | | 607,802 | 607,802 |
| Total liabilities | 690,194 | 614,097 | | | | 4,875,923 | 6,180,214 |
| Fund equity: | | | | | | | |
| Investment in general fixed assets | | | | | 13,151,281 | | 13,151,281 |
| Fund balances: | | | | | | | |
| Reserved for encumbrances | 408,816 | | | | | | 408,816 |
| Reserved for debt service | | | 1,457,085 | | | | 1,457,085 |
| Unreserved: | | | | | | | |
| Designated for specific fund purposes | | 627,102 | | 1,077,498 | | | 1,704,600 |
| Undesignated | 628,985 | | | | | | 628,985 |
| Total fund equity | 1,037,801 | 627,102 | 1,457,085 | 1,077,498 | 13,151,281 | | 17,350,767 |
| Total liabilities and fund equity | \$1,727,995 | \$1,241,199 | \$1,457,085 | \$1,077,498 | \$13,151,281 | \$4,875,923 | \$23,530,981 |

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2001**

| | GOVERNMENTAL FUND TYPES | | | | TOTALS (MEMORANDUM ONLY) |
|--|-------------------------|--------------------|--------------------|---------------------|-----------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | |
| REVENUES | | | | | |
| Property taxes | \$2,929,086 | | \$1,096,162 | | \$4,025,248 |
| Municipal license taxes | 679,629 | | | | 679,629 |
| Licenses and permits | 440,337 | | | | 440,337 |
| Intergovernmental | 1,663,714 | \$418,342 | | \$1,693,237 | 3,775,293 |
| Rent of property | 23,280 | | | | 23,280 |
| Fines and penalties | 1,220 | | | | 1,220 |
| Interest | 103,403 | | | | 103,403 |
| Federal grants | | 2,399,882 | | | 2,399,882 |
| Miscellaneous | 186,752 | 26,168 | | | 212,920 |
| Total revenues | <u>6,027,421</u> | <u>2,844,392</u> | <u>1,096,162</u> | <u>1,693,237</u> | <u>11,661,212</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Mayor and Municipal Assembly | 543,333 | | | | 543,333 |
| General government | 2,026,456 | 201,610 | | | 2,228,066 |
| Public safety | 105,731 | 10,396 | | | 116,127 |
| Public works | 1,651,289 | 867,309 | | | 2,518,598 |
| Public health and sanitation | 235,546 | | | | 235,546 |
| Welfare | 525,753 | 893,041 | | | 1,418,794 |
| Economic development | 30,367 | 164,261 | | | 194,628 |
| Recreation | 206,513 | 11,894 | | | 218,407 |
| Debt service: | | | | | |
| Principal retirement | 29,000 | | 270,000 | | 299,000 |
| Interest | 10,640 | | 172,633 | | 183,273 |
| Capital outlays | 35,282 | 1,441,451 | | 1,995,941 | 3,472,674 |
| Total expenditures | <u>5,399,910</u> | <u>3,589,962</u> | <u>442,633</u> | <u>1,995,941</u> | <u>11,428,446</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>627,511</u> | <u>(745,570)</u> | <u>653,529</u> | <u>(302,704)</u> | <u>232,766</u> |
| Fund balances, beginning as restated | <u>410,290</u> | <u>1,372,672</u> | <u>803,556</u> | <u>1,380,202</u> | <u>3,966,720</u> |
| Fund balances, ending | <u>\$1,037,801</u> | <u>\$627,102</u> | <u>\$1,457,085</u> | <u>\$1,077,498</u> | <u>\$4,199,486</u> |

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO
COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2001**

| | GENERAL FUND | | | DEBT SERVICE FUND | | |
|---|------------------|--------------------|--|-------------------|--------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| REVENUES | | | | | | |
| Property taxes | \$2,297,178 | \$2,326,018 | \$28,840 | \$562,893 | \$1,096,162 | \$533,269 |
| Municipal license taxes | 688,879 | 679,629 | (9,250) | | | |
| Licenses and permits | 400,737 | 440,337 | 39,600 | | | |
| Intergovernmental | 1,560,148 | 1,625,816 | 65,668 | | | |
| Rent of property | 23,075 | 23,280 | 205 | | | |
| Fines and penalties | 1,190 | 1,220 | 30 | | | |
| Interest | 53,296 | 103,403 | 50,107 | | | |
| Miscellaneous | 475,793 | 186,752 | (289,041) | | | |
| Total revenues | <u>5,500,296</u> | <u>5,386,455</u> | <u>(113,841)</u> | <u>562,893</u> | <u>1,096,162</u> | <u>533,269</u> |
| EXPENDITURES AND ENCUMBRANCES: | | | | | | |
| Current: | | | | | | |
| Mayor and Municipal Assembly | 637,710 | 639,097 | (1,387) | | | |
| General government | 2,111,366 | 2,042,734 | 68,632 | | | |
| Public safety | 110,756 | 109,595 | 1,161 | | | |
| Public works | 1,537,760 | 1,367,380 | 170,380 | | | |
| Public health and sanitation | 235,546 | 235,546 | - | | | |
| Welfare | 532,188 | 539,107 | (6,919) | | | |
| Economic Development | 32,748 | 32,102 | 646 | | | |
| Recreation | 213,383 | 212,340 | 1,043 | | | |
| Capital outlays | 49,199 | 43,799 | 5,400 | | | |
| Debt service: | | | | | | |
| Principal retirement | 29,000 | 29,000 | - | 200,000 | 270,000 | (70,000) |
| Interest | 10,640 | 10,640 | - | 362,893 | 172,633 | 190,260 |
| Total expenditures and encumbrances | <u>5,500,296</u> | <u>5,261,340</u> | <u>238,956</u> | <u>562,893</u> | <u>442,633</u> | <u>120,260</u> |
| Excess (deficiency) of revenues over (under) expenditures and encumbrances | <u>-</u> | <u>125,115</u> | <u>(352,797)</u> | <u>-</u> | <u>653,529</u> | <u>413,009</u> |
| ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES: | | | | | | |
| Net change in encumbrances | | (138,570) | | | | |
| GAAP Adjustments to revenue | | 640,966 | | | | |
| Fund balances, beginning, as restated | | 410,290 | | | 803,556 | |
| Fund balances, ending | | <u>\$1,037,801</u> | | | <u>\$1,457,085</u> | |

See accompanying notes to general purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2001

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The **Municipality of Luquillo** (the Municipality) was established in 1787. The Municipality's governmental system consists of an executive and a legislative body. A Mayor and twelve members Municipal Assembly who are elected every four years through the Puerto Rico general elections govern it.

The Municipality provides the following services: public safety, public works, culture and recreation, health, urban development and welfare.

The Municipality's general-purpose financial statements are presented in accordance with generally accepted accounting principles (GAAP), as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the Municipality's significant accounting policies follows:

A. Financial reporting entity:

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of *Statement No. 14* of the Governmental Accounting Standards Board. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government are financially accountable for the entity. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is the nature and significance of the relationship between the entity and a primary government is such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria there are no potential component units, which should be included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

B. Basis of presentation:

The Municipality records its transactions in the fund types and account groups described below:

Governmental fund types:

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of the Municipality's expendable financial resources and the related current liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental fund types:

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

Special Revenue - is used to account for the proceeds of specific revenue sources that are legally restricted to be expended for specific purposes.

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

Capital Projects - is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Account groups:

The account groups are used to maintain accounting control and accountability of the Municipality's general fixed assets and long-term debt. The Municipality's account groups are:

General Fixed Assets - is used to account for all fixed assets of the Municipality.

General Long-term Debt - is used to account for all long-term debt obligations of the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

C. Basis of accounting:

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues collected in advance of the fiscal year to which they apply are recorded as deferred revenues and recognized as revenues in the corresponding year. Expenditures are recorded when the liability is incurred, except for (1) interest on general long-term debt obligations which is recorded when due, and (2) accruals for vacation, sick leave, claims and judgments which are recorded in the general long-term debt account group.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of such revenues. In one situation, funds must be expended on the specific purpose or project before any amount is reimbursed to the Municipality; therefore, revenues are recognized based upon the expenditures recorded. In the other situation, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are recognized as revenues at the time of receipt or earlier if they meet the criteria of availability.

Licenses, permits, rent of property, fines, penalties and other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until actually received.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

D. Reservations of fund balance:

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

Encumbrances – Represent future expenditures under purchases orders, contracts and other commitments issued for goods and services not received at year-end. Where the appropriations lapse at year-end these will be honored during subsequent year. Encumbrances constitute the equivalent of expenditures for budgetary purposes and, accordingly, are reported with expenditures in all budgetary basis statements.

Debt Service – Represents net assets available to finance future debt service payments.

E. Budgetary data:

In establishing the budgetary data presented in the general purpose financial statements, the Municipality follows these procedures, which are in accordance with the Municipal Law:

- Prior to May 31, the Major submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes estimated expenditures and the means of financing them.
- The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
- Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general-purpose financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

E. Budgetary data (continued):

The budget is prepared following the modified accrual basis of accounting, except for the encumbrances that are recorded as expenditures under the budgetary basis and as a reserve of funds balances under GAAP and for the interfund transactions that are not included in the budgetary basis.

The actual result of operations, presented in the Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balances-Budget and Actual-General and Debt Service Funds, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

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

F. Inventories:

The General Fund purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as expenditure and, consequently, the inventory is not recorded in the general-purpose financial statements.

G. Property and equipment:

Property and equipment acquired are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Donated property and equipment are recorded at their estimated fair market value at the time they are received by the Municipality. No depreciation has been provided on property and equipment. Interest cost during the construction period is capitalized, when significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

H. Cash and cash equivalents:

The Municipality's Director of Finance is responsible for investing available resources and is restricted by law to invest only in saving accounts and certificates of deposit with banks qualified as depositories of public funds by the Department of the Treasury of the Commonwealth of Puerto Rico. The Municipality maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents". All cash in banks at June 30, 2001 is insured by the Federal Deposit Insurance Corporation up to \$100,000, and by collateral held by the Treasury Department to its name. Interest earned from certificates of deposit and other short-term investments is recorded as revenue in the General Fund. Cash and Cash Equivalents include investments with original maturities of ninety days or less.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenue Collection Center and Government Development Bank of the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, unused proceeds from bonds and notes issued for the acquisition or construction of permanent improvements and Federal grants resources.

I. Interfund transactions:

The Municipality has the following types of transactions among funds:

Operating transfers- Transfers that are reported when incurred as "Operating transfers from other fund" by the recipient fund and as "Operating transfers to other fund" by the disbursing fund.

Transfer of Expenditures (Reimbursements) – Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the reimbursed fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

J. Compensated absences:

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of an employee resignation, the employee is reimbursed for accumulated vacation days up to the maximum allowed. Separation from employment prior to the use of all or part of the sick leave before 10 years of service terminates all rights for compensation.

The Municipality accrues a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by *GASB Number 16*, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by municipal employees. This liability is presented in the general long-term debt account group because they will not be funded with available expendable financial resources at June 30, 2001.

K. Insurance:

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. The Secretary of the Treasury Department of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):**

L. Total columns (memorandum only):

The total columns (memorandum only) are presented only to facilitate additional analysis. Consequently, amounts shown in total columns do not represent financial position or result of operations, in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation since interfund eliminations have not been made.

M. Use of estimates in the preparation of general purpose financial statements:

The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

N. Claims and judgments:

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The General Long-term Debt Account Group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

2. DUE TO OTHER GOVERNMENTAL ENTITIES:

The amounts due to other governmental entities in the General Fund include the following:

| | |
|--|------------------|
| Retirement System Administration | \$ 40,794 |
| Puerto Rico Aqueduct and Sewer Authority | 8,480 |
| General Services Administration | 2,543 |
| Department of Treasury | 12,010 |
| State Insurance Fund | 16,890 |
| | <hr/> |
| Total | <u>\$ 80,717</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

2. DUE TO OTHER GOVERNMENTAL ENTITIES (CONTINUED):

The Municipality reached agreements with other governmental entities for the payment of debts on a long- term basis. These liabilities are presented in the General Long- term Debt Account Group because they will not be funded with available expendable financial resources at June 30, 2001. The following is the balance of these accounts:

| | |
|--|---------------------|
| Department of Treasury (Social Security) | \$ 179,955 |
| Department of Treasury (Property tax advances) | 8,548 |
| Municipal Revenue Collection Center | <u>1,300,618</u> |
| Total | <u>\$ 1,489,121</u> |

3. PROPERTY TAXES:

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible by law to assess, levy and collect real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment, as of January 1 of each year, is made on a return, which must be filed, with the CRIM, together with the payment, by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of the year 1957.

Tax rates are 8.33% for real property and 6.33% for personal property of which 1.03% of both belongs to the Commonwealth of Puerto Rico. The Municipality's share is composed of the basic tax of 5.8% for real property and 3.8% for personal property, which is recorded in the General Fund, and the additional tax of 1.50% in both cases, which is restricted for debt service and retained by the CRIM for such purposes. To the extent that such taxes are informed and collected by the CRIM, they are recorded as revenue in the General Fund and in the Debt Service Fund.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the CRIM assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when payments are received from the CRIM.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

3. PROPERTY TAXES (CONTINUED):

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

The CRIM advances to the municipality the estimated property tax collection for each fiscal year. Advances are repaid through actual collections from the taxpayers. The CRIM periodically informs the Municipality of the amounts collected and applied to outstanding advances. The property tax advanced by the CRIM during the year is recorded as property taxes revenues in the Municipality's General Fund. During the current year the collections were more than actual advances by \$603,068 according to CRIM preliminary liquidation. Such amount was included as intergovernmental receivable in the General Fund at June 30, 2001.

4. MUNICIPAL LICENSE TAXES:

The municipal license tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality, and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their declaration by April 15, of each year.

The tax rates are as follows:

| | |
|--------------------------------|-------|
| Financial institutions | 1.50% |
| Savings and loans associations | 1.50% |
| Other organizations | 0.50% |

The tax may be paid in two equal semi-annual installments on July 15 and January 15 following the filing date. However, a discount of 5% is allowed for total payment received on or before April 15. Collections made prior to June 30 pertaining to the next fiscal year are recorded as deferred revenues.

5. INTERGOVERNMENTAL:

Intergovernmental revenues consist mainly of payments from the Commonwealth of Puerto Rico and payments in lieu of taxes from certain quasi-public corporations, principally the Puerto Rico Electric Power Authority.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

5. INTERGOVERNMENTAL (CONTINUED):

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Intergovernmental revenues are recorded in the General Fund, except for those related directly to capital improvements, which are recorded in the Capital Projects Fund.

6. CASH AND CASH EQUIVALENTS:

| | |
|---|--------------------------------|
| Cash in bank accounts | \$ 2,252,346 |
| Certificates of deposit (90 days or less) | <u> -</u> |
| Total cash and cash equivalents | <u><u>\$ 2,252,346</u></u> |

7. DEBT SERVICE FUND:

Revenue for the Debt Service Fund consists mainly of the share of property taxes, which is designated for the debt service requirements of the bonds and notes obligations issued by the Municipality. The Government Development Bank pays principal and interest on these obligations.

8. GENERAL FIXED ASSETS:

A summary of changes in the General Fixed Assets Account Group is as follows:

| Description | Balance July 1, 2000 | Additions and adjustments | Retirements and adjustments | Balance June 30, 2001 |
|---------------------------|--------------------------|------------------------------|-----------------------------------|--------------------------|
| Buildings and Improvement | \$ 8,634,397 | \$ - | \$ - | \$ 8,634,397 |
| Equipment | <u>3,963,079</u> | <u>575,739</u> | <u>(21,934)</u> | <u>4,516,884</u> |
| Total | <u>\$ 12,597,476</u> | <u>\$ 575,739</u> | <u>\$ (21,934)</u> | <u>\$ 13,151,281</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

9. GENERAL OBLIGATION BONDS:

The general obligation bonds transactions for the year ended June 30, 2001 were as follows:

| | |
|--------------------------------------|---------------------|
| Balance at July 1, 2000 | \$ 2,945,000 |
| Debt issued | - |
| Principal retirements | (119,000) |
| Adjustments and/or Reclassifications | <u>(727,000)</u> |
| Balance at June 30, 2001 | <u>\$ 2,099,000</u> |

General obligation bonds at June 30, 2001 are as follows:

| Type of bonds | Maturity date | Original Amount | Range of Interest Rates | Balance at June 30, 2001 |
|--------------------------------|---------------|-----------------|-------------------------|--------------------------|
| 1984 Series | 7-1-04 | \$ 319,000 | 8.00% | \$ 104,000 |
| 1993 Series | 7-1-12 | 2,015,000 | 5.00% - 8.00% | 1,550,000 |
| 2000 Series | 7-1-14 | 460,000 | 0.00% - 8.00% | <u>445,000</u> |
| Total general obligation bonds | | | | <u>\$ 2,099,000</u> |

The future annual requirements for the amortization of general obligations bonds outstanding as of June 30, 2001, are as follows:

| Year ended June 30 | Total |
|-----------------------|---------------------|
| 2002 | \$ 129,000 |
| 2003 | 145,000 |
| 2004 | 155,000 |
| 2005 | 130,000 |
| 2006 | 135,000 |
| Thereafter | <u>1,405,000</u> |
| Total | <u>\$ 2,099,000</u> |

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond debt to 10 percent of the assessed valuation of the property located in the Municipality.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

10. NOTES PAYABLE:

The notes payable transactions for the year ended June 30, 2001 were as follows:

| | |
|----------------------------------|-------------------|
| Balance at July 1, 2000 | \$ 133,000 |
| Debt issued | - |
| Payments during the current year | (180,000) |
| Adjustments\Reclassifications | <u>727,000</u> |
| Balance at June 30, 2001 | <u>\$ 680,000</u> |

Notes payable at June 30, 2001 is as follows:

| Description | Maturity Date | Original Amount | Range of Interest rates | Balance June 30, 2001 |
|---------------------|------------------|--------------------|----------------------------|--------------------------|
| 1993 Series | 7-1-03 | \$ 525,000 | 4.87% - 6.71% | \$ 295,000 |
| 1996 Series | 7-1-01 | 125,000 | 4.87% - 6.75% | 30,000 |
| 2000 Series | 7-1-04 | 425,000 | 0.00% - 8.00% | <u>355,000</u> |
| Total notes payable | | | | <u>\$ 680,000</u> |

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2001, are as follows:

| Year ended June 30 | Total |
|-----------------------|-------------------|
| 2002 | \$ 200,000 |
| 2003 | 180,000 |
| 2004 | 200,000 |
| 2005 | <u>100,000</u> |
| Total | <u>\$ 680,000</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN:

Defined Benefit Pension Plan

The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the "System") is the administrator of a cost sharing multiple-employer defined benefit public employee retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447 approved on May 15, 1951, as amended. All regular employees of the Municipality hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the System as a condition to their employment. No benefits are payable if the participant receives a refund of his/her accumulated contributions. The System also provides for death and disability benefits pursuant to legislation enacted by the Commonwealth's legislature.

Under the System, the employees and employer portions are contributed, for which, the employee amount is withheld from salaries. Covered employees are required by Commonwealth statute to contribute 5.775% for the first \$550 of monthly gross salaries plus 8.275% for the excess of this amount, or on the alternative, 8.275% of monthly gross salaries. The Municipality contributes to the System 9.275% of the participating employee's gross salaries.

Pension benefits for employees that joined the system before April 1, 1990 are as follows:

| <u>Years of Service</u> | <u>Participant Age</u> | <u>Pension Benefits</u> |
|-------------------------|------------------------|---|
| 30 or more | 54 or less | 65% of the average of the three years of highest salary during the employees' service period. |
| 30 or more | 55 or more | 75% of the average of the three of highest salary during the employees' service period. |

For participants who retire with less than 30 years of service the pension benefits is computed at the rate of 1-1/2% of their average compensation for each year of credited service for the first 20 years and 2% for each of credited service for the remaining years.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED)

For those employees that joined the system after April 1, 1980 the pension benefits are as follows:

| Years of Service | Participant Age | Pension Benefits |
|-------------------------|------------------------|---|
| 25 or more | Between 55 and 64 | Computed at the rate of 1-1/2% of their average compensation for each year of credited service, with an actuarial reduction based on the actuarial guides adopted by the Board of Trustees. |
| 10 or more | 65 or more | Computed at the rate of 1-1/2% of their average compensation for each year-credited service. |

For participants who retire with less than 25 years of service and the participant age are 64 or less the pension benefit is computed at the rate of 1-1/2% of their average compensation for each year of credited service.

Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 on September 24, 1999, which amends Act No. 447 to establish, among other, a defined contribution saving 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, received a refund of their contributions and are rehired on or after January 1, 2000 become members of the Program as a condition to their employment. In addition, employees who at December 14, 1999 were participants of the defined benefit 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

The Municipality is required by the Act No. 305 to contribute 9.275% of the participant's gross salary. The System will use these contributions to increase its asset level and reduce the unfounded status of the defined benefits 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 spouse in case of the participant death. Participants with 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 Municipality contributions to the above-mentioned plans during the year ended June 30, 2001 recorded as pension expenditures was approximately \$ 195,000. This amount represent 100% of the required contribution for the fiscal year ended June 30, 2001.

The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 27, *Accounting for Pensions by State and Local Governmental Employers*. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee's services performed to date and is adjusted for the effects of projected salary increases. The significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

- * The present value of the future pension payments was computed by using a discount rate of 8.5%. The discount rate is equal to the estimated long-term rate of return on current and future investments of the pension plan.
- * Future pension payments reflect an assumption of 5% salary increase.

The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other public retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the plan.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

11. RETIREMENT PLAN (CONTINUED):

The membership of retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits, and active employees and the distribution of active employees between vested and nonvested is not readily available. Contributions in 2001 and prior years were made based on percentages established by the law. Such percentage has not been based on actuarial studies, as required by generally accepted accounting principles. An actuarial compilation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the accounts by which the actual contributions differ from the required actuarial contributions are not known.

The ten-year historical trend information is available in the separately issued audited financial statements of the Retirement System.

12. INTERFUND TRANSACTIONS:

Due from/to other funds

Interfund receivables and payables represent temporary loans between the funds.

Operating transfers

Operating transfers represent transfers between funds to specific purposes designated by the management.

13. COMMITMENTS AND CONTINGENCIES:

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. These programs are subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

13. COMMITMENTS AND CONTINGENCIES (CONTINUED):

B. Claims and lawsuits:

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

14. BEGINNING FUND BALANCES RESTATEMENT:

The beginning Fund Balances for General, Special Revenue, Capital Projects and Debt Service Funds have been restated by accounting errors detected during the fiscal year that affect the Fund Equity section of those Governmental Funds, as follows:

| Description | General | Special Revenue | Capital Projects | Debt Service |
|--|-------------------|---------------------|---------------------|-------------------|
| Beginning Fund Balances at July 1, 2000 | \$ 463,236 | \$ 1,506,561 | \$ 493,073 | \$ 843,070 |
| Reclassifications of beginning cash balances | 7,699 | (7,578) | (121) | |
| Accounting errors in beginning cash balances | | (95,754) | | |
| Recognition of Cash with fiscal agency not recorded | | | 887,250 | |
| Reclassification of Special Revenue Fund Balance to Deferred Federal Grant Revenue | | (30,557) | | |
| Deposits and Bonds liability not recorded | (60,645) | | | |
| Change in revenue recognition | | | | (39,514) |
| Beginning Fund Balances at July 1, 2000, as restated | <u>\$ 410,290</u> | <u>\$ 1,372,672</u> | <u>\$ 1,380,202</u> | <u>\$ 803,556</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2001

| Federal Grantor/Pass-through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Expenditures |
|---|------------------------------------|--|-------------------------|
| U.S. DEPARTMENT OF AGRICULTURE: | | | |
| Direct Program: | | | |
| Nutrition Program for the Elderly | 10.570 | | \$ <u>27,984</u> |
| Total U.S. Department of Agriculture | | | <u>27,984</u> |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | |
| Direct Program | | | |
| Section 8 Rental Voucher Program | 14.855 | | 424,345 |
| Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs: | | | |
| Community Development Block Grants- State Program | 14.228 | 96-FD-41 97-FD-41 98-FD-41 99-FD-41 00-FD-41 | <u>1,694,423</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>2,118,768</u> |
| U.S DEPARTMENT OF JUSTICE: | | | |
| Pass-through the Commonwealth Office of the Governor (Youth Office): | | | |
| Title V - Delinquency Prevention Program | 16.548 | 99-JP-FX-0072 00-JP-FX-0072 | <u>35,802</u> |
| Total U.S. Department of Justice | | | <u>35,802</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

| <u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Expenditures</u> |
|---|------------------------------------|---|----------------------|
| U.S DEPARTMENT OF TRANSPORTATION: | | | |
| Pass-through the Commonwealth of Puerto Rico Transit Safety Commission: Incentive Grant | 20.601 | Not Available | <u>6,058</u> |
| Total U.S. Department of Justice | | | <u>6,058</u> |
| U.S FEDERAL EMERGENCY MANAGEMENT AGENCY: | | | |
| Pass-through the Commonwealth of Puerto Rico Emergency Management Agency: Emergency Management-State and Local Assistance | 83.534 | Not Available | 3,000 |
| Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR): Public Assistance Grants | 83.544 | 1247-DR-PR | <u>73,622</u> |
| Total U.S. Federal Emergency Management Agency: | | | <u>76,622</u> |
| U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | | |
| Pass-through the Commonwealth of Puerto Rico Governor's Office (Elderly Office): Special Programs for Aging – Title III, Part B – Grant for Supportive Services and Senior Centers | 93.044 | Not Available | 123,250 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

| <u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Expenditures</u> |
|--|------------------------------------|---|----------------------------|
| Pass-through the Commonwealth of Puerto Rico Administration for Children and Families: | | | |
| Community Services Block Grant | 93.569 | Not available | 5,000 |
| Child Care and Development Block Grant | 93.575 | Not available | <u>6,398</u> |
| Total U.S. Department of Health and Human Services | | | <u>134,648</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 2,399,882</u> |

The accompanying notes are an integral part of this schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2001

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the **Municipality of Luquillo** and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the general-purpose financial statements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund in the Municipality's general-purpose financial statements. The reconciliation between the expenditures in the general-purpose financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

| <u>Description</u> | <u>Special Revenue</u> |
|---|----------------------------|
| Per Schedule of Expenditures of Federal Awards | \$ 2,399,882 |
| Non federal programs expenditures | <u>1,190,080</u> |
| Total expenditures in the general purpose financial Statements | <u><u>\$ 3,589,962</u></u> |



López-Vega, CPA, PSC

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

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

We have audited the general purpose financial statements of the **Municipality of Luquillo** as of and for the year ended June 30, 2001, and have issued our report thereon dated December 4, 2001, which was qualified because we were unable to audit the fixed assets of the general fixed assets account group. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Luquillo's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Luquillo's** ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs items **01-01** through **01-03**.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. However, we believe item **01-01** of the reportable conditions described in the accompanying Schedule of Findings and Questioned Costs is a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Luquillo** in a separate letter dated December 4, 2001.

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 4, 2001

Stamp No.1785237 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

**INDEPENDENT AUDITORS' 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 the Municipal Assembly
Municipality of Luquillo
Luquillo, Puerto Rico**

Compliance

We have audited the compliance of the **Municipality of Luquillo** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The **Municipality of Luquillo's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Luquillo's** management. Our responsibility is to express an opinion on the **Municipality of Luquillo's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB 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 the **Municipality of Luquillo's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Luquillo's** compliance with those requirements.

In our opinion, the **Municipality of Luquillo** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **01-04** through **01-06**.

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the **Municipality of Luquillo's** ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items **01-04** through **01-06**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Luquillo** in a separate letter dated December 4, 2001.



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

This report is intended for the information of the management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.


LÓPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 4, 2001

Stamp No.1785238 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2001

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: **Qualified**

Internal control over financial reporting:

Material weakness identified? Yes X No

Reportable conditions identified
not considered to be material weaknesses? Yes X None reported

Noncompliance material to financial statements noted? Yes No X

Federal awards

Internal Control over major programs:

Material weakness identified? Yes No X

Reportable conditions identified not considered to be
material weaknesses? Yes X None reported

Type of auditors’ report issued on compliance
for major programs: **Unqualified**

Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510(a)? Yes X No

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|--------------------|---|
| 14.228 | Community Development Block Grant – State’s Program |

Dollar threshold used to distinguish
between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee? Yes No X

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

| | |
|-------------------------------|--|
| Finding Reference | 01-01 |
| Requirement | Fixed\Capital Assets and Expenditures - Subsidiary Ledger |
| Statement of Condition | During our examination of Municipality's property records and reports we noted the following deficiencies; (a) balance in the Property Subsidiary Ledger does not reconcile with the ending balances reported in the audited financial statements; (b) there is no adequate internal control procedures to assure the proper valuation and timeliness of recognition of real and personal property in the Property Subsidiary Ledger; (c) Construction in Progress account were not maintained in the General Ledger and Property Subsidiary Ledger. |
| Criteria | Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. |
| Cause of Condition | There is no internal control procedures implemented to assure the completeness of the property records and reports. |
| Effect of Condition | The Municipality did not maintain an adequate control of the accountability regarding equipment and real property transactions. |
| Recommendation | We recommend that the Municipality should implement procedures in order to assure the proper valuation and timeliness of recognition of real and personal property as well as Construction in Progress in the Property Subsidiary Ledger in a manner that it provides updated and complete financial information. |
| Management Response | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

| | |
|-------------------------------|---|
| Finding Reference | 01-02 |
| Requirement | Financial Reporting - Accounting Records |
| Statement of Condition | During our examination of the Municipality's accounting system we noted that it does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds) and Account Groups. |
| Criteria | Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. |
| Cause of Condition | The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record. |
| Effect of Condition | The Municipality's accounting system did not provide updated and complete financial information that present the financial position, the result of operations and the change in fund balances. Such information is necessary to take management decisions. |
| Recommendation | We recommend that the Municipality should implement the necessary internal controls and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, expenditures, interfund transactions, etc. |
| Management Response | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II – Financial Statements Findings

Finding Reference **01-03**

Requirement **Expenditures for Goods and Services and Account Payables –
Purchasing and Receiving**

Statement of Condition During our examination of the Municipality’s procedures related to the purchasing and receiving process we examined sixty (60) disbursement vouchers and we noted the following situations.

- a. Five (5) disbursements vouchers were not available for our examination.
- b. Fourteen (14) cancelled checks were not available for our examination.
- c. Eleven (11) purchase orders were prepared after the receiving of the invoice.
- d. On two (2) disbursement vouchers there was no evidence of invoices or receiving reports.
- e. On five (5) disbursement vouchers there was no evidence that the goods or services were rendered as requested.
- f. On nine (9) disbursement vouchers there was no evidence that the Municipality requested at least three quotations or realized formal bids for these purchases.
- g. Three (3) disbursement vouchers have mathematical misstatements.

Criteria The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establish in Chapter four (4) that the Finance Director will be responsible to account and to prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions. Also the Chapter eight (8) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes the procedures related to the formal bids or quotations for the purchase of goods or services.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section II - Financial Statements Findings

| | |
|----------------------------|---|
| Finding Reference | 01-03 (Continued) |
| Requirement | Expenditures for Goods and Services and Account Payables - Purchasing and Receiving |
| Cause of Condition | The Municipality did not establish effective internal control to assure that all transactions include all the required documentation. |
| Effect of Condition | The Municipality is not in compliance with Revised Regulations on Basic Standards for the Municipalities of Puerto Rico. |
| Recommendation | We recommend that the Municipality should improve its internal control and procedures in order to assure that all disbursement vouchers contain all supporting documents before the payment is made. Also, we recommend that the Municipality should improve its procedures to assure that at least three quotations be requested for all purchases off goods or services that do not exceed \$10,000 and construction contracts that do not exceed \$40,000 or realize formal bids for purchases that exceed these limits. |
| Management Response | The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|---|
| Finding Reference | 01-04 |
| Program | Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs (OCAM) |
| Requirement | Davis-Bacon Act |
| Statement of Condition | <p>During our Davis-Bacon Act test for various construction projects (00-FD-41-001, 99-FD-41-001, 99-FD-41-002 and 98-FD-41-002), we noted that the Municipality did not apply adequately the monitoring system developed to ensure contractors compliance with payment of prevailing wages rates to employees.</p> <p>We noted the following situations: contractor's and subcontractor's laborers interviews were not made periodically; contractor weekly payrolls were not requested promptly during activity of construction project to be reviewed by the Municipal Employee responsible of applying monitoring procedures; and failures to pay prevailing wages by the contractors were not appropriately communicated to them.</p> |
| Criteria | Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24 CFR 570.603. |
| Cause of Condition | Municipality did not apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages. |
| Effect of Condition | Municipality is not in compliance with Davis-Bacon Act, as amended (40 USC 276A-276A-5), Subpart K, 24, CFR 570.603 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-04 (Continued)**

Requirement **Davis-Bacon Act**

Recommendation We recommend management to follow monitoring system procedures developed, including obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis by the responsible Municipal Employee, and interview contractor's and subcontractor's laborers periodically (up to ten percent (10%) of the workers on long term projects) to establish the degree of compliance and the nature and extend of violations, if any. Also we recommend management to communicate contractors promptly any failure in the payroll process.

Questioned Costs None

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|---|
| Finding Reference | 01-05 |
| Program | Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs (OCAM) |
| Requirement | Equipment and Real Property Management |
| Statement of Condition | During our examination of equipment and real property management requirement we noted that the Municipality does not have property records that include all required specifications required by federal agencies. |
| Criteria | Code of Federal Regulations, Subpart C, 24 CFR 85.32 (d) (1), states that the property records must be maintained in order to include a description of the property, serial number or other identification number, the source of property, who holds the title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property. |
| Cause of Condition | There is no internal control procedures implemented to assure that equipment and real property records includes all necessary information as required by Code of Federal Regulations, Subpart 24 CFR 85.32 (d) (1). |
| Effect of Condition | Municipality did not maintained an adequate control of the accountability regarding equipment and real property transactions. |
| Recommendation | We recommend that the Municipality should implement procedures in order to assure that its property records include all required specifications required by federal agencies. |
| Questioned Costs | None |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **01-05 (Continued)**

Management Response The Municipality Management concurs with the finding. Auditor's recommendation would be considered as part of corrective action plan development and implementation.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|--|
| Finding Reference | 01-06 |
| Program | Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs |
| Requirement | Procurement and Suspension and Debarment |
| Statement of Condition | During our contract provision test we noted the following situations: two (2) contracts did not include provision for termination by default; three (3) contracts did not include provisions to comply with Executive Order 11246 “Equal Employment Opportunity”; two (2) contracts did not include clauses to comply with Davis Bacon Act; three (3) contracts did not contain clauses to comply with sections 103 and 107 of the Contract Work Hours & Safety Standards Act; four (4) contracts did not include provisions for granting access to GAO or other Federally Agency to books and documents; two (2) contracts did not contain clauses to comply with the Clear Air Act and Water Act; two (2) contracts did not include provisions to comply with Energy Policy and Conservation Act; three (3) contracts did not contain provisions to comply with the Copeland “Anti-Kickback”; and three (3) contracts did not contain provisions for retention off all required records for three years. |
| Criteria | Subpart C, 24 CFR Section 85.36 (i) (1-13), stated that sub grantee’s contracts must contain provisions described in paragraph (i) of this section. |
| Cause of Condition | The Community Development Block Grant Program did not maintain appropriate procurement standards procedures in order to assure that contract clauses comply with Federal requirements. |
| Effect of Condition | Municipality is not in compliance with Subpart C, 24 CFR, Section 85.36 (i) (1-13) related to contract clauses. |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2001

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|----------------------------|---|
| Finding Reference | 01-06 (Continued) |
| Program | Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass through State – Office of Commissioner of Municipal Affairs |
| Requirement | Procurement and Suspension and Debarment |
| Recommendation | We recommend management to update contract models according with the federal requirement. |
| Questioned Costs | None |
| Management Response | The Municipality Management concurs with the finding. Auditor’s recommendation would be considered as part of corrective action plan development and implementation. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LUQUILLO

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2001

| Original Finding Number | CFDA No. | Current Status of Prior Audit Findings |
|-------------------------|----------|--|
| 00-III-01 | 14.228 | <u>Inspections of rehabilitation work should be realized during the contract term and upon completion of the related work</u> Full corrective action has been taken. |
| 00-III-02 | 14.228 | <u>The Davis-Bacon Act monitoring system procedures should be applied consistently</u> No corrective action has been taken. The Municipality is developing a procedures manual. |
| 00-III-03 | 14.228 | <u>Procurement process should by adequately documented</u> No corrective action has been taken. The Municipality is developing a procedures manual. |