

GOVERNMENT OF PUERTO RICO
OFFICE OF THE GOVERNOR

ENVIRONMENTAL QUALITY BOARD

FINANCIAL STATEMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

(WITH THE ADDITIONAL REPORTS REQUIRED BY
THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)

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PART I
FINANCIAL



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INDEPENDENT AUDITORS' REPORT

Pedro J. Nieves Miranda, Esq.
President
Environmental Quality Board of the
Government of Puerto Rico

We have audited the accompanying Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds of the **Environmental Quality Board of the Government of Puerto Rico (EQB)** for the fiscal year ended June 30, 2010. This statement is the responsibility of the EQB's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. 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 statement. 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.

As discussed in Note 1 to the financial statement, the **EQB** prepares its Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1, the financial statement of the **EQB** is intended to present the cash receipts, disbursements, and net changes of the governmental funds of only that portion of the financial reporting entity of the Government of Puerto Rico that is attributable to the transactions of the **EQB**. They do not purport to, and do not, present fairly the financial position of the Government of Puerto Rico as of June 30, 2010, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to previously present fairly, in all material respects, the cash receipts and disbursements of the **EQB** governmental funds, and the respective cash basis net changes thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Pedro J. Nieves Miranda, Esq.
President
Environmental Quality Board of the
Government of Puerto Rico
INDEPENDENT AUDITORS' REPORT
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In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2011 on our consideration of the EQB's internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant 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.

Our audit was conducted for the purpose of forming an opinion on the Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds of the EQB taken as a 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 financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects in relation to the Statement of Cash Receipts, Disbursements, and Net Changes – Governmental Funds taken as a whole.

CPA Diaz-Martinez, PSC

CPA DIAZ-MARTINEZ, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2013

Caguas, Puerto Rico
December 12, 2011



GOVERNMENT OF PUERTO RICO
OFFICE OF THE GOVERNOR
ENVIRONMENTAL QUALITY BOARD

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND NET CHANGES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	Special Revenues Fund	Capital Projects Fund	Federal Grants Fund	Total Governmental Funds
CASH RECEIPTS:					
Appropriations from the Government of Puerto Rico.....	\$ 7,805,775	\$ 8,895,035	\$ -	\$ -	\$16,700,810
Federal Grants	1,706,312	-	-	34,033,602	35,739,914
Fines and Penalties.....	-	493,594	-	-	493,594
Total Cash Receipts	9,512,087	9,388,629	-	34,033,602	52,934,318
CASH DISBURSEMENTS:					
Air Quality Improvement.....	1,182,522	-	-	-	1,182,522
Analysis of Environmental Tests	1,178,762	-	-	-	1,178,762
Capital Improvement for Water and Sewing Projects.....	-	-	2,340,656	-	2,340,656
Clean Air Act Project	-	2,485,917	-	1,205,625	3,691,542
Emergency Response and Superfund Project..	-	3,233,082	-	286,531	3,519,613
Environmental and Scientific Supporting.....	490,595	-	-	-	490,595
Environmental Emergencies	-	3,823	-	-	3,823
General Administration and Direction.....	2,974,133	6,638,168	-	-	9,612,301
Land Pollution Control	1,145,571	-	-	18,829	1,164,400
Pneumatic and Recycling Program	-	470,509	-	-	470,509
Oil Control	-	427,652	-	-	427,652
Pollution Control	507,385	-	-	-	507,385
Regional Services	1,654,351	-	-	-	1,654,351
Studies for Requests of Tax Exemptions	47,390	-	-	-	47,390
Water Quality Improvement.....	2,613,689	-	-	1,134,723	3,748,412
Subtotal	11,794,398	13,259,151	2,340,656	2,645,708	30,039,913
Pass-Through Entity (State Revolving Fund)....	-	-	-	33,105,466	33,105,466
Total Cash Disbursements	11,794,398	13,259,151	2,340,656	35,751,174	63,145,379
NET CHANGES	(\$ 2,282,311)	(\$ 3,870,522)	(\$ 2,340,656)	(\$ 1,717,572)	(\$10,211,061)

See accompanying Notes to this Statement.

1. FINANCIAL REPORTING ENTITY

A. Organization

The Government of Puerto Rico, Office of the Governor, **Environmental Quality Board (EQB)** was established under Law Number 416 of September 22, 2004, as amended. The **EQB** is responsible for the protection and conservation of the environment in the Government of Puerto Rico. The Government of Puerto Rico was constituted on July 25, 1952, under provisions of its Constitution as approved by the people of Puerto Rico and the Congress of the United States of America. The Government's Constitution provides for the separation of powers of the executive, legislative and judicial branches of the government. The Government assumes responsibility for public safety, public health, public housing, welfare, education, and economic development.

B. Financial Reporting Entity

The accompanying financial statement includes all divisions whose funds are under the custody and control of the **EQB**. In evaluating the **EQB** as a reporting entity, management has addressed all the potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Codification of Governmental Accounting and Financial Reporting Standard, Section 2100.

The basic criteria for including a potential component unit within the reporting entity is if potential component units are financially accountable and other organizations for which the nature and significance of their relationship with the entity are such that exclusion would cause the **EQB's** financial statement to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) ability of the **EQB** to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the **EQB**.

The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Our specific evaluations of the criteria applicable to the **EQB** indicate no organizations meet the criteria to be included as component units. Accordingly, this financial statement presents only the **EQB** as the reporting entity.

The **EQB** is for financial reporting purposes a part of the Government of Puerto Rico. Because **EQB** is part, for financial reporting purposes, of the Government of Puerto Rico, its financial data is included as part of the Government of Puerto Rico financial statements. The **EQB** accompanying financial statement is issued solely to comply with the Single Audit Act Amendments of 1996 (P.L. 104-156) and for the information and used of the **EQB's** management, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement – Measurement Focus and Basis of Accounting

The **EQB's** accompanying financial statement have been prepared in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenue is recognized when cash is received and disbursement are recorded when the related cash payment is made. Capital assets resulting from cash transactions are reported as cash disbursements in the acquiring governmental fund upon cash acquisition. No capital assets are recorded in the **EQB's** financial statement. No long-term debt is reported in the **EQB's** financial statement. No accrued compensated absences are reported in the **EQB's** financial statement. Compensated absences resulting from cash transactions are reported as cash disbursements in the governmental fund column upon cash payment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The accounts of **EQB** are organized on the basis of fund types, which are responsible for the coordination, receipt, and management of funds principally approved by the U.S. Environmental Protection Agency (EPA). These funds are composed for four programs which are described below. The accounts of the **EQB** are accounted for with a set of accounts which only include cash receipts and cash disbursements. No balance sheet accounts are maintained or reported.

The following individual programs account for the governmental resources allocated to them for the purpose of carrying on specified activities in accordance with laws, regulations, and other restrictions:

- **General Fund** – The general fund is the main operating fund of the **EQB**. It is used to account for all financial resources except those required to be accounted for separately.
- **Special Revenues Fund** – Accounts for proceeds received through fines and penalties imposed to entities in Puerto Rico to assure compliance with federal and local environmental laws; and resources received from Indirect Costs Reimbursement from the Environmental Protection Agency.
- **Capital Projects Fund** – Accounts for the financial resources for the improvements of aqueduct and sewing systems which are not financed by other funds.
- **Federal Grants Fund** – Accounts for the financial resources related to the Federal Grant Awards administered by the **EQB**.

Notes to the Financial Statement

The notes to the financial statement provide information that is essential to a user's full understanding of the data provided in the financial statement.

B. Stewardship, Compliance, and Accountability

Budgetary Information

The revenues recognized in the General Fund consist of appropriations from the Office of Management and Budget of the Government of Puerto Rico for recurrent and ordinary functions of the **EQB**. The procedures followed in approving the annual budget is as follows:

- a. Between November and December the **EQB** submits to the Office of Management and Budget of the Government of Puerto Rico an operating budget petition for the fiscal year commencing the following July 1.
- b. At the beginning of the ordinary session of the Legislative Assembly of the Government of Puerto Rico, the Governor submits a proposed budget for the fiscal year covering the whole operations of the Government. This proposed budget includes estimated expenditures and the means of financing them.
- c. The annual budget is legally enacted through the approval by the Legislative Assembly of the Joint Resolution of the General Budget. Subsequently to enactment, the Office of Management and Budget of the Government has the authority to make the necessary adjustments to the budget.

Federal grant funds can be carried over a specified amount of time, upon request to, and approval by EPA. The financial statement is presented at the programmatic level. However, budgetary control and accounting is exercised at a lower level providing management with detailed control over expenditures at an appropriated budget level.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C. Interfund Transactions

The EQB has the following type of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund.

D. Risk Financing

The EQB carries commercial insurance to cover property and 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 and Government of Puerto Rico instrumentalities. Also, principal officials of the EQB are covered under various surety bonds.

E. Accounting for Pension Costs

The EQB adopted the provisions of Codification of Governmental Accounting and Financial Reporting Standard Section Pe5, Pension Plans – Defined Benefit, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The EQB accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying financial statement are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of the Codification, the Government is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multiemployer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the EQB participate. The EQB is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Government and the basic financial statements of such retirement systems are part of the financial reporting entity of the Government.

F. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. The EQB has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund.