

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

**MUNICIPIO DE CULEBRA  
AUDITORÍA 2014-2015**

**30 DE JUNIO DE 2015**

# COMMONWEALTH OF PUERTO RICO MUNICIPALITY OF CULEBRA

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BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS  
AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT

Year Ended June 30, 2015



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## **INDEPENDENT AUDITOR'S REPORT**

Honorable Major and Members of the Municipal Legislature  
Municipality of Culebra, Commonwealth of Puerto Rico:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Municipality of Culebra of The Commonwealth of Puerto Rico (the "Municipality"), as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the Municipality of Culebra's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pension Plan**

The deferred outflows/inflows of resources, and net pension liability in governmental activities of the government-wide Statement of Net Position, and the pension expense for the current period change in that liability in governmental activities of the government-wide Statement of Activities, which represents the 3 percent, 1 percent, 91 percent, and 5 percent of the deferred outflows/inflows of resources, total liability as of June 30, 2015, and expense for the fiscal year then ended. These amounts were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, a cost-sharing multiple-employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, pension expenses of the governmental activities and note of pension plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosure were necessary.

### **Basis for an Adverse Opinion on Governmental Activities regarding Capital Assets and Solid Waste Landfill Closure and Post-Closures Care Costs**

As described in Note 4 to the financial statements, the Municipality did not record additions to capital assets nor has recorded the corresponding depreciation over such additions. Accounting principles generally accepted in the United States of America requires that capital assets additions be capitalized and depreciated over their estimated useful lives, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities is not reasonably determinable.

(Continued)

As discussed in Note 8 H to the financial statements, the Municipality did not comply with the requirements established by Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and post-Closures Care Costs, issued by Governmental Accounting Standards Boards and the regulations set forth by the US Environmental Protection Agency. At June 30, 2015, the accompanying statement of net position does not include the liability for closures and post-closures care costs of the Municipality's solid waste landfill. In addition, the expenses and results of operations reported in the statement of activities are understated and overstated, respectively, for amounts that could not be determined for the fiscal year ended June 30, 2015.

## **Adverse Opinion**

In our opinion, because of the significance of the matters discussed in the *“Basis for Adverse Opinion on Governmental Activities regarding Capital Assets and Solid Waste Landfill Closure and Post-Closures Care Costs”* paragraphs, and the possible effects of the matter described in the *“Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan”* paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the Municipality of Culebra as of June 30, 2015, or the changes in financial position thereof for the year then ended.

## **Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Culebra, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

### *Change in Accounting Principle*

During fiscal year ended June 30, 2015, the Municipality adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions and the related GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. As a result of the implementation of these standards, the Municipality reported a restatement for the change in accounting principle (see Note 1 R). Our auditors' opinion was modified with respect to the restatement.

## **Others Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule presented on pages 9 and 73, be presented to supplement the basic financial statements.

(Continued)

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the municipality of Culebra's basic financial statements. The Schedule of Expenditures of Federal Awards (page 77) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The Schedule of Federal Awards is responsibility of management and was derived from and related directly the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the audit procedures, in the general purpose financial statements, and in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

#### **Other Reporting Required by Governmental Auditing Standards**

In accordance with governmental Auditing Standards, we also issued our report dated March 21, 2016 on our consideration of the Municipality's Internal Control over financial reporting and our tests 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 over financial reporting and compliance, and the result of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering the Municipality's internal control over financial reporting and compliance.

*TCRA2 Associates, LLC*

San Juan, Commonwealth of Puerto Rico  
March 23, 2016

Stamp No. E183989 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

The management of Municipality of Culebra, Puerto Rico (Municipality) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

This MD&A is prepared in order to comply with the dispositions established in the Governmental Accounting Standards Board Statement No. 34 and, among other purposes, to provide the financial statements users with the following major information:

- a broader basis in focusing important issues;
- acknowledgement of an overview of the Municipality's financial activities;
- provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
- identification of uses of funds in the financing of the Municipality's variety of activities and;
- assess management's ability to handle budgetary functions.

#### **FINANCIAL HIGHLIGHTS**

The following are key financial highlights for the fiscal year:

- ❖ The liabilities of the Municipality exceeded its assets at June 30, 2015 by \$1,418,708, and at June 30, 2014 by \$1,761,683, as restated;
- ❖ The Municipality's total net position increased by \$342,975 during fiscal year 2014-2015;
- ❖ As of June 30, 2015, the Municipality's governmental funds reported combined ending fund balances of \$5,939,550, an increase of \$636,291 from the prior year;
- ❖ At June 30, 2015, the fund balance of the General Fund was \$832,730;
- ❖ The Municipality's capital assets inventory has no movement during fiscal year;
- ❖ The investment in capital assets for this year was not determinable;
- ❖ Loans principal payments were \$60,000 and \$55,000 in 2015 and 2014, respectively.

#### **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements; fund financial statements; and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include general government, public safety, public works, culture and recreation, health and sanitation, solid waste disposal, human services and welfare, urban development and education. Property taxes, municipal license tax, state and federal grants finance most of these activities.

**FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**GOVERNMENTAL FUNDS**

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

(Continued)

COMMONWEALTH OF PUERTO RICO  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**GOVERNMENTAL NET POSITION**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, liabilities exceeded assets by \$1,418,708 as of June 30, 2015 versus \$1,761,683, as restated, as of June 30, 2014. Our analysis below focuses on the net position (**Table 1**) and changes in net position of the Municipality's governmental activities.

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

<b><u>Table 1</u></b>		
<b><u>Statement of Net Position</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Current and non-current assets	\$ 7,138,265	\$ 6,430,976
Capital assets	<u>8,412,866</u>	<u>8,412,866</u>
<b>Total Assets</b>	<b><u>15,551,131</u></b>	<b><u>14,843,842</u></b>
<b>Deferred outflows of resources</b>	<b><u>387,981</u></b>	<b><u>-</u></b>
Current liabilities	1,351,429	1,127,717
Long-term liabilities	<u>15,908,429</u>	<u>15,477,808</u>
<b>Total Liabilities</b>	<b><u>17,266,858</u></b>	<b><u>16,605,525</u></b>
<b>Deferred Inflow of Revenues</b>	<b><u>90,962</u></b>	<b><u>-</u></b>
Net position:		
Investment in capital assets, net of related debt	6,212,866	6,152,866
Restricted	5,106,820	3,951,480
Deficit	<u>(12,738,394)</u>	<u>(11,866,029)</u>
<b>Total Net Position</b>	<b><u>\$ (1,418,708)</u></b>	<b><u>\$ (1,761,683)</u></b>

The largest portion of the Municipality's net position reflects its investment in capital assets (e.g. land, buildings, machinery and equipment); less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Municipality's net position represents resources that are subject to external restrictions on how they may be used.

**GOVERNMENTAL ACTIVITIES**

Governmental activities decreased the Municipality's net position. Key elements of this decrease are the recognition of the net pension liability and the pension expense during the fiscal year 2014-2015 in accordance with the GASB 68. In addition, follows: the Municipality's governmental activities had net expenses of \$4,883,544. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues exceed net expenses by \$342,975.

(Continued)

COMMONWEALTH OF PUERTO RICO  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

The cost of all governmental activities this year was \$6,756,492. Table 2 presents the cost of each of the Municipality's largest programs.

<b><u>Table 2</u></b> <b><u>Statement of Activities</u></b>	<b><u>2015</u></b>	<b><u>2014, as restated</u></b>
Revenues		
Grants and contributions	\$ 2,843,046	\$ 1,605,210
Charges for services	20,664	8,800
General revenues:		
Property taxes	728,129	701,045
Volume of business taxes	195,632	170,203
Sales taxes	1,195,898	1,281,007
Intergovernmental	2,759,002	2,875,914
Rent	22,478	14,305
Licenses and permits	183,019	119,167
Miscellaneous	142,361	208,509
Total revenues	<u>8,090,229</u>	<u>6,984,160</u>
Expenses		
General government	2,672,648	2,738,095
Public safety	200,931	233,209
Public works	1,134,719	1,096,132
Culture and recreation	261,884	179,314
Human services and welfare	370,378	340,079
Urban development	2,062,806	1,917,515
Education	341,961	200,822
Pension	651,872	-
Interest on long-term debts	50,055	51,326
Total expenses	<u>7,747,254</u>	<u>6,756,492</u>
Changes in net position	342,975	227,668
Net position – beginning, as restated	<u>(1,761,683)</u>	<u>(1,989,351)</u>
<b>Net position – ending</b>	<b><u>\$ (1,418,708)</u></b>	<b><u>\$ (1,761,683)</u></b>

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

**GOVERNMENT FUND FINANCIAL ANALYSIS**

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

<b>Table 3</b>		
<b>Balance Sheet</b>	<b><u>2015</u></b>	<b><u>2014, as restated</u></b>
<b>Assets:</b>		
Total assets – Major Funds	\$ 9,068,402	\$ 8,538,358
Total assets – Other Funds	<u>824,127</u>	<u>641,495</u>
Combined total assets	<u>9,892,529</u>	<u>9,179,853</u>
<b>Liabilities:</b>		
Total liabilities – Major Funds	3,252,933	3,356,087
Total liabilities – Other Funds	<u>476,587</u>	<u>520,507</u>
Combined total liabilities	<u>3,729,520</u>	<u>3,483,768</u>
Combined total deferred inflows of resources	<u>223,459</u>	<u>-</u>
<b>Fund Balances:</b>		
Restricted – Major Funds	4,961,511	3,830,492
Restricted – Other Funds	145,309	120,988
Assigned – Major Funds	832,730	1,710,371
Unrestricted – Major Funds	<u>-</u>	<u>(358,592)</u>
Combined total fund balances	<u>5,939,550</u>	<u>5,303,259</u>
<b>Total liabilities, deferred inflows of Resources and fund balances</b>	<b><u>\$ 9,892,529</u></b>	<b><u>\$ 9,179,853</u></b>

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

<b>Table 4</b>		
<b>Changes in Fund Balances</b>	<b>2015</b>	<b>2014</b>
Revenues:		
Total revenues – Major Funds	\$ 7,231,995	\$ 6,670,108
Total revenues – Other Funds	<u>634,775</u>	<u>404,132</u>
Combined total revenues	<u>7,866,770</u>	<u>7,074,240</u>
Expenditures:		
Total expenditures – Major Funds	6,694,768	6,491,184
Total expenditures – Other Funds	<u>535,711</u>	<u>337,991</u>
Combined total expenditures	<u>7,230,479</u>	<u>6,829,175</u>
Other financing sources (uses):		
Transfer – In	285,232	1,116,384
Transfer – Out	<u>(285,232)</u>	<u>(1,116,384)</u>
Combined other financing sources (uses), net	<u>-</u>	<u>-</u>
Net changes in fund balance	636,291	245,065
Fund Balance – beginning	<u>5,303,259</u>	<u>5,058,194</u>
<b>Fund Balance – ending</b>	<b><u>\$ 5,939,550</u></b>	<b><u>\$ 5,303,259</u></b>

**GOVERNMENTAL FUNDS**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2015, the Municipality's governmental funds reported combined ending fund balances of \$5,939,550, an increase of \$636,291 from the prior year.

The Municipality has an assigned fund balance of \$832,730 in its General Fund.

(Continued)

COMMONWEALTH OF PUERTO RICO  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

**BUDGETARY HIGHLIGHTS**

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, and variance between the final budget and actual results for the general and major special revenue funds.

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. Differences between the original 2015 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ The original budget was amended to increase expenditures between expenditures accounts.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2015 amounted to \$8,412,866 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads and bridges. Table 5 present the major classes of capital assets.

<b>Table 5</b>	
<b>Capital Assets</b>	<b>Amount</b>
Land	\$ 3,366,886
Buildings	4,846,452
Motor vehicles	197,793
Machinery and equipment	<u>1,735</u>
<b>Total Assets</b>	<b><u>\$ 8,412,866</u></b>

**LONG-TERM DEBT**

At June 30, 2015 the Municipality had a total of \$4,924,751 in general obligations and other outstanding debts, as shown in **Table 6**. Of this amount, \$2,200,000 comprises debt backed by the full faith and credit of the government and \$2,724,751 is other obligations.

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2015

<b>Table 6</b>	
<b>Long Term Debts</b>	<b>Amount</b>
General obligations	\$ 2,200,000
Others	<u>2,724,751</u>
<b>Total Long Term Debts</b>	<b><u>\$ 4,924,751</u></b>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, sales taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the Municipality's budget for the 2015 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information contact the Municipality's Finance Department at (787) 742-3510.

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Statement of Net Position  
June 30, 2015

	Primary Government Governmental Activities
<b>ASSETS</b>	
Cash in commercial banks	\$ 2,988,418
Receivables – net of allowance for uncollectibles	
Property tax	73,301
Sales tax	120,440
Federal grants	321,437
Intergovernmental	193,237
Restricted assets:	
Cash in commercial banks	1,932,491
Cash with fiscal agent	1,508,941
Capital assets:	
Nondepreciable	3,366,886
Depreciable, net	5,045,980
Total assets	15,551,131
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	 387,981
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	 \$ 15,939,112

(Continued)

COMMONWEALTH OF PUERTO RICO  
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Statement of Net Position  
June 30, 2015

	Governmental Activities
<b>LIABILITIES</b>	
Accounts payable and accrued expenses liabilities	\$ 417,291
Due to other governmental units	108,348
Unearned revenue:	
Volume of business taxes	162,211
Federal grants	202,231
Interest payable	25,175
General long term debts:	
Payable within one year	383,173
Payable after one year	4,541,578
Net pension liability	11,366,851
Other	60,000
Total liabilities	17,266,858
 <b>DEFERRED INFLOWS OF RESOURCES</b>	 90,962
 <b>NET POSITION</b>	
Net investment in capital assets	6,212,866
Restricted for:	
Debt service	1,194,739
Other	3,912,081
Unrestricted (deficit)	(12,738,394)
Total net position	(1,418,708)
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	 \$ 15,939,112

See notes to basic financial statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Statement of Activities  
June 30, 2015

<u>Functions</u>	<u>Expenses</u>	<u>Program revenues</u>			Net (expense) revenue and changes in net position
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Primary government/ Governmental activities</u>
<b>PRIMARY GOVERNMENT</b>					
Mayor and municipal legislature	\$ 558,462	\$ -	\$ -	\$ -	\$ (558,462)
General government	2,114,186	10,250	-	-	(2,103,936)
Public safety	200,931	-	-	-	(200,931)
Public works	575,794	-	6,887	-	(568,907)
Culture and recreation	261,884	-	-	-	(261,884)
Sanitation	558,925	-	-	-	(558,925)
Human services and welfare	370,378	-	269,643	-	(100,735)
Urban development	2,062,806	-	-	2,294,585	231,779
Education	341,961	10,414	271,931	-	(59,616)
Interest	50,055	-	-	-	(50,055)
Pension	651,872	-	-	-	(651,872)
Total primary government	<u>\$ 7,747,254</u>	<u>\$ 20,664</u>	<u>\$ 548,461</u>	<u>\$ 2,294,585</u>	<u>\$ (4,883,544)</u>

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Statement of Activities  
June 30, 2015

<u>Functions</u>	<u>Expenses</u>	<u>Program revenues</u>			<u>Net (expense) revenue and changes in net position</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	<u>Primary government/ Governmental activities</u>
TOTAL PRIMARY GOVERNMENT	\$ 7,747,254	\$ 20,664	\$ 548,461	\$ 2,294,585	\$ (4,883,544)
 GENERAL REVENUES					
Property taxes, levied for general purposes					551,599
Property taxes, levied for debt services					176,530
Volume of business taxes					195,632
Sales taxes					1,195,898
Construction excise taxes					183,019
Intergovernmental					2,759,002
Rent					22,478
Miscellaneous					142,361
Total general revenues					5,226,519
CHANGE IN NET POSITION					\$ 342,975
NET POSITION-BEGINNING OF YEAR AS RESTATED					(1,761,683)
NET POSITION-END OF YEAR					\$ (1,418,708)

See notes to basic financial statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Balance Sheet – Governmental Funds  
June 30, 2015

	<u>General</u>	<u>Debt service</u>	<u>State assignments</u>	<u>CDBG</u>	<u>Other governmental</u>	<u>Total governmental</u>
ASSETS						
Cash in commercial banks	\$ 2,988,418	\$ -	\$ -	\$ -	\$ -	\$ 2,988,418
Receivables:						
Property tax	56,808	16,493	-	-	-	73,301
Sales tax	120,440	-	-	-	-	120,440
Federal grants	-	-	-	298,626	22,811	321,437
Intergovernmental	55,565	-	4,618	-	133,054	193,237
Due from other funds	453,342	-	2,201,354	-	99,568	2,754,264
Restricted assets:						
Cash in commercial banks	-	-	1,557,053	6,612	368,826	1,932,491
Cash with fiscal agent	-	1,263,421	45,652	-	199,868	1,508,941
<b>TOTAL ASSETS</b>	<b><u>\$ 3,674,573</u></b>	<b><u>\$ 1,279,914</u></b>	<b><u>\$ 3,808,677</u></b>	<b><u>\$ 305,238</u></b>	<b><u>\$ 824,127</u></b>	<b><u>\$ 9,892,529</u></b>

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Balance Sheet-governmental funds  
June 30, 2015

	<u>General</u>	<u>Debt service</u>	<u>State assignments</u>	<u>CDBG</u>	<u>Other governmental</u>	<u>Total governmental</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 167,259	\$ -	\$ -	\$ 250,032	\$ -	\$ 417,291
Bonds and notes payable	-	60,000	-	-	-	60,000
Accrued interest	-	25,175	-	-	-	25,175
Due to governmental entities	108,348	-	-	-	-	108,348
Due to other funds	2,180,566	-	41,905	55,206	476,587	2,754,264
Unearned revenues:						
Volume of business tax	162,211	-	-	-	-	162,211
Federal grants	-	-	-	-	202,231	202,231
<b>Total liabilities</b>	<b>2,618,384</b>	<b>85,175</b>	<b>41,905</b>	<b>305,238</b>	<b>678,818</b>	<b>3,729,520</b>

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Balance Sheet-governmental funds  
June 30, 2015

	General	Debt service	State assignments	CDBG	Other governmental	Total governmental
Deferred inflows of resources:						
Unavailable revenues:						
Intergovernmental	223,459	-	-	-	-	223,459
Total deferred inflows of resources	223,459	-	-	-	-	223,459
Fund balances (deficit):						
Non spendable	-	-	-	-	-	-
Spendable						
Restricted	-	1,194,739	3,766,772	-	145,309	5,106,820
Assigned	832,730	-	-	-	-	832,730
Unassigned	-	-	-	-	-	-
Total fund balances	832,730	1,194,739	3,766,772	-	145,309	5,939,550
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 3,674,573</b>	<b>\$ 1,279,914</b>	<b>\$ 3,808,677</b>	<b>\$ 305,238</b>	<b>\$ 824,127</b>	<b>\$ 9,892,529</b>

See notes to basic financial statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
June 30, 2015

TOTAL FUND BALANCE OF GOVERNMENTAL FUNDS	\$	5,939,550
Adjustments to Reconcile to the Government-wide Statement of Net Position:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported reported in funds		8,412,866
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		(4,541,578)
Net pension obligations are not due and payable in the current period and , therefore, are not reported in the funds.		(11,366,851)
Deferred outflows or resources related to pension		387,981
Deferred inflows of resources related to pension		(90,962)
Other long-term liabilities		(159,714)
TOTAL NET POSITION, GOVERNMENTAL ACTIVITIES	<u>\$</u>	<u>(1,418,708)</u>

See notes to basic financial statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) – Governmental Funds  
Year ended June 30, 2015

	<u>General</u>	<u>Debt service</u>	<u>State assignments</u>	<u>CDBG</u>	<u>Other governmental</u>	<u>Total governmental</u>
REVENUES						
Taxes:						
Property taxes	\$ 494,791	\$ 176,530	\$ -	\$ -	\$ -	\$ 671,321
Volume of business taxes	195,632	-		-	-	195,632
Sales taxes	887,948	196,864		-	-	1,084,812
Construction excise taxes	183,019	-		-	-	183,019
Charges for services	-	-		-	20,664	20,664
Federal grants	-	-		1,361,117	428,016	1,789,133
Intergovernmental	2,703,437	-	867,802	-	186,095	3,757,334
Rent	22,478	-		-	-	22,478
Miscelaneos	142,361	-	16	-	-	142,377
<b>TOTAL REVENUES</b>	<u>\$ 4,629,666</u>	<u>\$ 373,394</u>	<u>\$ 867,818</u>	<u>\$ 1,361,117</u>	<u>\$ 634,775</u>	<u>\$ 7,866,770</u>

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) – Governmental Funds  
Year ended June 30, 2015

	General	Debt service	State assignments	CDBG	Other governmental	Total governmental
TOTAL REVENUES	\$ 4,629,666	\$ 373,394	\$ 867,818	\$ 1,361,117	\$ 634,775	\$ 7,866,770
EXPENDITURES						
Current:						
Mayor and municipal legislature	558,462	-	-	-	-	558,462
General government	2,189,127	-	138	-	18	2,189,283
Public safety	200,931	-	-	-	-	200,931
Public works	575,794	-	-	-	-	575,794
Culture and recreation	261,884	-	-	-	-	261,884
Sanitation	558,925	-	-	-	-	558,925
Human services and welfare	175,478	-	-	-	194,900	370,378
Urban development	636,039	-	-	1,361,117	65,650	2,062,806
Education	66,818	-	-	-	275,143	341,961
Debt service:						
Principal	-	60,000	-	-	-	60,000
Interest and other charges	-	50,055	-	-	-	50,055
TOTAL EXPENDITURES	5,223,458	110,055	138	1,361,117	535,711	7,230,479
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	\$ (593,792)	\$ 263,339	\$ 867,680	\$ -	\$ 99,064	\$ 636,291

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) – Governmental Funds  
Year ended June 30, 2015

	General	Debt service	State assignments	CDBG	Other governmental	Total governmental
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (593,792)	\$ 263,339	\$ 867,680	\$ -	\$ 99,064	\$ 636,291
OTHER FINANCING SOURCES (USES)						
Transfer - in	74,743	-	210,489	-	-	285,232
Transfer - out	-	(210,489)	-	-	(74,743)	(285,232)
TOTAL OTHER FINANCING SOURCES (USES)	74,743	(210,489)	210,489	-	(74,743)	-
NET CHANGE IN FUND BALANCES	(519,049)	52,850	1,078,169	-	24,321	636,291
FUND BALANCE - BEGINNING	1,351,779	1,141,889	2,688,603	-	120,988	5,303,259
FUND BALANCE - ENDING	<u>\$ 832,730</u>	<u>\$ 1,194,739</u>	<u>\$ 3,766,772</u>	<u>\$ -</u>	<u>\$ 145,309</u>	<u>\$ 5,939,550</u>

See notes to basic financial statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Reconciliation of the Statement of Revenues, Expenditures, and Changes in  
Fund Balances (Deficit) of Governmental Funds to the Statement of Activities  
Year ended June 30, 2015

NET CHANGE IN FUND BALANCES (DEFICIT) – TOTAL GOVERNMENTAL FUNDS	\$	636,291
Adjustments to Reconcile to the Statement of Activities:		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		223,459
Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		60,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Decrease in Ley 42 debt		65,431
Increase in compensated absences		9,323
Decrease in Ley 146		343
Decrease in Liq. Final CRIM 13-14		-
Increase in ASES debt		-
Pension expense not reported as expenditure in the governmental funds		(651,872)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	342,975

See notes to basic financial statements

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of Culebra, Puerto Rico (Municipality) was founded in the year 1880, and operates as a governmental unit of the Commonwealth of Puerto Rico, under Law No. 81 of August 30, 1991, as amended, known as the Autonomous Municipality Act of the Commonwealth of Puerto Rico (Law No. 81).

The Municipality's governmental system consists of executive and legislative branches. The Constitution of the Commonwealth of Puerto Rico (the "Commonwealth") provides for the separation of powers of the executive, legislative and judicial branches. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The legislative power is exercised by the Municipal Legislature, which consists of five Legislators also elected every four years. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, urban and economic development, and many other general and administrative Services.

The accounting principles of the Municipality of Culebra ("Municipality") conform to accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental entities. The following is a summary of the more significant policies.

The accompanying basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations) constitutes GAAP for governmental units.

In June 1999, GASB issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB No. 34). This statement established new financial reporting requirements for state and local governments. On July 1, 2002, the Municipality adopted the provisions of GASB No. 34 as well as other statements referred to below.

The accompanying basic financial statements present the financial position and the results of operations of the Municipality and its various funds and fund types. The basic financial statements are presented as of June 30, 2015, and for the fiscal year then ended. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

According to the financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

The required supplementary information, which consists of a management discussion and analysis (MD&A), is information presented along with, but separate from, the Municipality's basic financial statements. The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the year ended June 30, 2014, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

As previously mentioned, on July 1, 2002, other statements and interpretations were also adopted in conjunction and simultaneously with GASB No. 34. Those statements and interpretations are: (1) GASB Statement No. 33 – Accounting and Financial Reporting for Nonexchange Transactions, (2) GASB Statement No. 37 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, (3) GASB Statement No. 38 – Certain Financial Statement Note Disclosures and (4) GASB Interpretation No. 6 – Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

GASB No. 34 also required that the accounting for all governmental activities reported in the GWFS be based on applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessor bodies, such as the Accounting Principles Board (APB), issued on or before November 30, 1989, provided those pronouncements do not conflict with or contradict GASB pronouncements. Accordingly, in conjunction and simultaneously with the adoption of GASB No. 34, the Municipality also adopted the following pronouncements: (1) APB Opinion No. 20 – Accounting Changes, (2) APB Opinion No. 21 – Interest on Receivables and Payables, (3) FASB Statement No. 5 - Accounting for Contingencies and (4) FASB Statement No. 16 – Prior Period Adjustments. The Municipality has elected to not apply all statements and interpretations issued by FASB after November 30, 1989.

The Municipality adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

**A. Financial Reporting Entity**

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality.

In evaluating how to define the Municipality for financial reporting purposes, the management of the Municipality has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by Statement No. 61 of the Governmental Accounting Standards Board. The Municipality had no component units for the year ended June 30, 2015.

**B. Measurement Focus and Basis of Accounting**

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Municipality. Such statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

**Governmental Fund Financial Statements**

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual; as soon as it is both measurable and available. "Available" means collectible within the current period or soon enough thereafter, normally within sixty (60) days, to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred.

The exception to this general rule is the principal and interest on general obligation long-term debt and compensated absences, if any, are recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues (federal grants) pursuant to GASBS No. 33, Accounting and Financial Reporting for Nonexchange Transactions (the Municipality may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as assets by the provider and a liability by the recipient.

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

There are essentially two types of revenue. For some grants, funds must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred to the extent available. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include the following:

- ❖ Employee's vested annual vacation and sick leave is recorded as expenditure when utilized. The amount of accumulated annual vacation and sick leave unpaid at June 30, 2015, has been reported only in the government-wide financial statements.

**C. Financial Statement Presentation**

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. While the previous financial reporting model emphasized fund types (the total of all funds of a particular type), in the new financial model the focus is on either the Municipality as a whole, or major individual funds (within the basic financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

**Government-Wide Financial Statements**

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information of all the activities of the Municipality. For most part, the effect of interfund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the Statement of Net Position is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement, for the first time, combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets and long-term obligations.

The Statement of Net Position presents the reporting entities' assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

- ❖ **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- ❖ **Restricted Net Position** – These results when constraints are placed on net position use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- ❖ **Unrestricted Net Position** – These consists of net position which do not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

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

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position or liabilities changed during the fiscal year ended June 30, 2015, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, volume of business taxes, sales taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) mayor and municipal legislature, (2) general government, (3) public safety, (4) public works, (5) culture and recreation, (6) health and sanitation, (7) human services and welfare and, (8) urban development. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

**Mayor and municipal legislature:**

Municipal legislature

Mayor's office

**General government:**

Department of finance

Department of human resources

Department of municipal secretary

Department of internal audit

**Public safety:**

Department of emergency management – civil defense

Department of municipal police

**Public works:**

Department of public works

**Culture and recreation:**

Department of sports and recreation

Department of art, culture and tourism

**Sanitation:**

Department of recycling services

**Human service and welfare:**

Department of health

Department of citizen affairs

**Urban development:**

Department of planning and development

Federal programs office

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and, (3) special items.

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

**Program revenues** – These revenues are generated directly from a program itself or may come from parties outside the Municipality’s taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality’s general revenues or (2) the net program revenue that contributes to the Municipality’s general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

**General revenues** – These revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes, construction excise taxes and sales and use taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

**Special items** – These items consist of revenues arising from significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

Extraordinary items consist of revenues arising from significant transactions or other events that are both unusual in nature and infrequent in occurrence.

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the FFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities.

The Municipality classifies the most significant portion of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the FFS.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net positions for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements.

The Municipality has operations and activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Governmental Fund Financial Statements**

The fund financial statements (the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances) are, in substance, very similar to the financial statements presented in the previous financial reporting model. Emphasis here is on the major funds in the governmental category. Non-major funds are summarized into a single column.

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is on Major Funds, rather than the previous financial model's fund types. The Governmental Major Fund Statements are presented on current financial resources and modified accrual basis of accounting.

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This is the manner in which these funds are normally budgeted. This presentation deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the source and use of liquid resources, and (c) demonstrate how the Municipality's actual experience conforms to the budgeted fiscal plan.

Since the governmental fund statements are presented in a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented and a separate explanation for each differences.

The Municipality reports its financial position (Balance Sheet) and results of operations (Statement of Revenues, Expenditures and Changes in Fund Balance) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

The model as defined in GASBS No. 34 established criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category in the governmental fund) for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements. The Municipality reports the following major funds:

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

**State Assignment Fund** – This is the fund used to account for all the transactions of the State Assignment by Legislature Resolutions. The primarily objectives of this assignments is the development of projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

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

**CDBG Grant Funds** – is used to account for revenues derived from the Department of Housing and Urban Development grants, related to Community Development Block Grant.

**D. Financial Reporting Presentation**

The accounts of the Municipality are organized on the basis of funds, each if which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

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The Municipality adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Fund types are as follows:

**General Fund** – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality’s governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

**Special Revenue Fund** – is a governmental fund used to account for and report the proceeds of specific revenue sources that are legally restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

**Debt Service Fund** – is a governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years.

**Capital Projects Fund** – is a governmental fund used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality’s operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

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**E. Fund Balances**

According to the provisions of GASB Statement No. 54, the fund balances are reported in five categories:

- ❖ **Nonspendable** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ❖ **Restricted** – Amounts are restricted by external parties (creditors, grantors, contributors or law/regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- ❖ **Committed** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- ❖ **Assigned** – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- ❖ **Unassigned** – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts is restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely.

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However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2014.

When expenditure is incurred for purposes for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

At June 30, 2015, the accompanying fund financial statements reported fund balances as restricted and unassigned.

**F. Budgetary Data**

The Municipality annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts of Proprietary Funds and Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of supplemental appropriations. During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;

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2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Interfund transactions of the General and Special Revenue Funds are not included in the budgetary basis.

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4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Major and Non Major Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

**G. Cash, Cash Equivalent and Investment**

The Finance Director of the Municipality is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue, Debt Service and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. At June 30, 2015, the Municipality does not have any type of investment.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

Cash with fiscal agent represents property tax collections retained by the Municipal Revenues Collection Center and undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

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**H. Receivables**

Receivable are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

**I. Inventories**

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

**J. Capital Assets**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality's capitalization levels are \$500 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<b>Capital Assets</b>	<b>Years</b>
Buildings and site improvements	20-50
Infrastructure	20-50
Vehicles	5-10
Machinery and equipment	5-20

**K. Long-Term Obligations**

The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

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**L. Compensated Absences**

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued 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 GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2015.

<u>BALANCE</u> <u>JULY 1, 2014</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS</u> <u>AND CURRENT</u> <u>MATURATES</u>	<u>BALANCE</u> <u>JUNE 30, 2015</u>	<u>CURRENT</u> <u>PORTION</u>	<u>LONG-TERM</u> <u>PORTION</u>
\$ 365,901	\$ -	\$ 9,323	\$ 365,901	\$ 225,000	\$ 140,901

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**M. Insurance**

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. 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. Corresponding premiums payable are withheld by the Municipal Revenue Collection Center from quarterly advances of annual property tax and subsidy sent to the Municipality.

**N. 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. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of reciprocal and nonreciprocal interfund activities:

- ❖ **Interfund loans** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ❖ **Interfund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ❖ **Interfund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

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**O. 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 Long-Term Liabilities 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.

**P. Use of Estimates**

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

**Q. Risk Financing**

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico.

Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2015 amounted to \$87,046. The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$69,920 for workers compensation insurance covering all municipal employees.

**R. Change in Accounting Principle**

The Municipality implemented GASB No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. It requires employers to report their proportionate share of the plan's net pension liability, pension expense, and deferred inflows and outflows of resources as well as additional note disclosures and required supplementary information.

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The following schedule reflects the impact of GASB 68:

	Governmental Activities
Net position July 1, 2014, as previously stated	\$ 8,656,277
Cumulative effect of application of GASB 68, net pension liability	(10,417,960)
Net position July 1, 2014, as restated	\$ (1,761,683)

**S. New Accounting Pronouncements**

Pronouncements effective for the 2015 Financial Statements:

In June 2012, the ***GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions"***, an amendment of GASB Statement No. 27, effective for the Municipality's fiscal year beginning July 1, 2014. This Statement revises existing standards for employer financial statements relating to measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees. The financial statements report the liability of the net pension liability, which is measured as the total pension liability, less the amount of the pension fiduciary net position. Changes in pension liability are included in pension expense in the period of the change.

In January 2013, the ***GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations"***, effective for the Municipality's fiscal year beginning July 1, 2014. This Statement establishes standards for accounting and financial reporting of government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations of government or nongovernment entities to a continuing government. There is no impact of this statement on the Municipality of Culebra financial statements.

In November 2013, the ***"GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date"***, effective for the Municipality concurrently with the implementation of GASB Statement No. 68. This Statement addresses an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to the implementation of GASB 68 by employer contributions. This statement is implemented in conjunction with GASB State No. 68.

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Pronouncements issued, but not yet effective, which will be adopted by the Municipality in future years:

In February 2015, the ***GASB issued Statement No. 72, "Fair Value Measurement and Application"***. This Statement generally requires investments to be measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuations techniques will be required to be used that are appropriate with defined approaches. Disclosures are required to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. This Statement will be effective for the Municipality in fiscal year 2016. The Municipality is in the process of evaluating the impact of this pronouncement on its financial statements.

In June 2015, the ***GASB issued Statement No.73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"***. This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees not within the scope of Statement 68. Requirements are also established for the assets accumulated for the purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet the criteria within the scope of Statement 67. This Statement will be effective for the Municipality in fiscal year 2016. The Municipality is in the process of evaluating the impact of this pronouncement on its financial statements.

In June 2015, the ***GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"***. This Statement establishes financial reporting standards for Other Post-Employment Plans (OPEB) that is administered through trusts or equivalent arrangements which involve contributions from employers and nonemployer contributing entities to the OPEB plan. This Statement is effective for financial statements with fiscal years beginning after June 15, 2016. The Municipality is in the process of evaluating the impact of this pronouncement on its financial statements.

In June 2015, the ***GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions"***. This Statement establishes accounting and financial reporting standards for Other Post-Employment Plans (OPEB) that is administered through trusts or equivalent arrangements which involve contributions from employers and nonemployer contributing entities to the OPEB plan. This Statement is effective for financial statements with fiscal years beginning after June 15, 2017. The Municipality is in the process of evaluating the impact of this pronouncement on its financial statements.

In June 2015, the ***GASB issued Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"***. This Statement establishes the hierarchy of GAAP for state and local governments. This Statement will be effective for the Municipality in fiscal year 2016. The Municipality is in the process of evaluating the impact of this pronouncement on its financial statements.

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In August 2015, the *GASB issued Statement No. 77, "Tax Abatement Disclosures. This Statement requires state and local governments to disclose tax abatement agreements entered by other governments and that reduce the reporting government's tax revenues"*. The reduction in tax revenues can result from an agreement between one or more governments and an individual entity in which one or more governments promise to forgo tax revenues to which they are otherwise entitled. The individual or entity promises to take specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. This statement is effective for the Municipality in fiscal year 2017. The Municipality is in the process of evaluating the impact of this pronouncement on its financial statements.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No.3. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

**Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as it's custodial and credit risk policy, the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.

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**Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2015, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. Therefore, the Municipality's management has concluded that at June 30, 2015 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

**Foreign exchange risk** – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015.

The Municipality's bank balances in commercial banks of \$2,988,418 in the General Fund, \$1,557,053 in the State Assignment Fund and \$6,612 in the CDBG Fund were fully collateralized at June 30, 2015. Also, in the Other Governmental Funds there were deposits with commercial banks of \$368,826 that were fully collateralized.

The deposits at GDB of \$45,652 in the State Assignment Fund, \$1,263,421 in the Debt Service Fund and \$199,868 in the Other Governmental Fund, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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**NOTE 3 – RECEIVABLES**

**A. Federal Grants Receivable**

Federal grants receivable represent expenditures incurred not yet reimbursed by the federal programs. Following is a detail of the federal grants receivable:

<b>Federal Program</b>	<b>Amount</b>
Community Development Block Grant	\$ 298,626
Child Care Development Block Grant	17,696
Title III	<u>5,115</u>
<b>Total</b>	<b><u>\$ 321,437</u></b>

**B. Intergovernmental Receivables**

Intergovernmental receivables represent expenditures incurred not yet reimbursed by the state agencies. Following is a detail of the state government receivables:

<b>Governmental Entity</b>	<b>Amount</b>
Office of the Commissioner of Municipal Affairs	\$ 10,500
P.R. Office of Commerce and Export	45,065
State Port Authority	4,618
State Department of Labor – Law 52	<u>133,054</u>
<b>Total</b>	<b><u>\$ 193,237</u></b>

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**C. Due From Other Funds**

Interfund receivables and payables at June 30, 2015 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Other Governmental Funds	Payroll and related accruals paid and not reimbursed	\$ 359,488
General Fund	State Assignment Fund	Payroll and related accruals paid and not reimbursed	41,905
General Fund	CDBG Fund	Payroll and related accruals paid and not reimbursed	51,949
State Assignment Fund	General Fund	Loans between funds	2,101,014
State Assignment Fund	Other Governmental Funds	Loans between funds	100,340
Other Governmental Funds	General Fund	Loan between funds	20,016
Other Governmental Funds	General Fund	Cash pool in the same bank account	<u>79,552</u>
<b>Total</b>			<b><u>\$ 2,754,264</u></b>

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**D. Interfund Transfers**

Interfund transfers during the fiscal year ended at June 30, 2015, are summarized as follows:

<b>Transfer Out</b>	<b>Transfer In</b>	<b>Purpose</b>	<b>Amount</b>
Debt Service Fund	State Assignment Fund	To cover operating expenditures	\$ 210,489
Other Governmental Funds	General Fund	To cover operating expenditures	<u>74,743</u>
<b>Total</b>			<b><u>\$ 285,232</u></b>

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**NOTE 4 – CAPITAL ASSETS**

Capital assets, those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2015, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

Governmental Activities	Balance July 1, 2014	Additions	Retirements / Reclassifications	Balance June 1, 2015
Capital asset, not being depreciated:				
Land	\$ 3,366,886	\$ -	\$ -	\$ 3,366,886
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total capital assets not being depreciated</b>	<u>3,366,886</u>	<u>-</u>	<u>-</u>	<u>3,366,886</u>
Capital assets, being depreciated:				
Buildings	6,285,605	-	-	6,285,605
Infrastructure	-	-	-	-
Machinery and equipment	672,604	-	-	672,604
Motor vehicles	<u>1,626,395</u>	<u>-</u>	<u>-</u>	<u>1,626,395</u>
<b>Total capital assets being depreciated</b>	<u>8,584,604</u>	<u>-</u>	<u>-</u>	<u>8,584,604</u>
Less accumulated depreciation for:				
Buildings	(1,439,153)	-	-	(1,439,153)
Infrastructure	-	-	-	-
Machinery and equipment	(670,869)	-	-	(670,869)
Motor vehicles	<u>(1,428,602)</u>	<u>-</u>	<u>-</u>	<u>(1,428,602)</u>
<b>Total accumulated depreciation</b>	<u>(3,538,624)</u>	<u>-</u>	<u>-</u>	<u>(3,538,624)</u>
<b>Total capital assets being depreciated, net</b>	<u>5,045,980</u>	<u>-</u>	<u>-</u>	<u>5,045,980</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,412,866</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,412,866</u>

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COMMONWEALTH OF PUERTO RICO  
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Depreciation expenses were not charged to the governmental functions/programs:

<b>Governmental activities</b>	<b>Amount</b>
General government	\$ -
Urban development	-
Education	-
Public Safety	-
Public Works	-
Culture and Recreation	-
Human services and welfare	-
<b>Total depreciation expenses</b>	<b><u>\$ -</u></b>

GASB Statement No. 34 requires to retroactively applying the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with GASB Statement No. 34.

**NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES LIABILITIES**

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2014-2015, and not paid by the Municipality at June 30, 2015. Following is a detail of these accounts payable and accrued liabilities:

<b>Major Governmental Funds</b>	<b>Accounts Payable</b>	<b>Accrued Liabilities</b>	<b>Total</b>
General Fund	\$ 56,638	\$ 110,621	\$ 167,259
CDBG Fund	<u>250,032</u>	-	<u>250,032</u>
<b>Total</b>	<b><u>\$ 306,670</u></b>	<b><u>\$ 110,621</u></b>	<b><u>\$ 417,291</u></b>

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**NOTE 6 – DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2015, balance due to other governmental units consists of the following:

<b>Governmental Agency</b>	<b>Amount</b>
General Service Administration	\$ 3,887
Aqueduct and Sewer Authority	20,553
State Department of Labor	3,822
State Department of Treasury	<u>80,086</u>
<b>Total</b>	<b><u>\$ 108,348</u></b>

**NOTE 7 – UNEARNED REVENUES**

A. **Federal Grants** – unearned revenues presented in the Balance Sheet represents the portion of federal grants received for which qualifying expenditures have not been incurred. Unearned revenues are as follows:

<b>Program Description</b>	<b>Amount</b>
Public Assistance Grants	\$ 141,455
Child Care Food Program	<u>60,776</u>
<b>Total</b>	<b><u>\$ 202,231</u></b>

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**NOTE 8 – GENERAL LONG-TERM DEBTS**

Long-term liability activity for the year ended June 30, 2015, was as follows:

Description	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$ 2,260,000	\$ -	\$ 60,000	\$ 2,200,000	\$ 60,000
Property Tax Debt – Law 42	2,077,274	-	65,431	2,011,843	69,542
Compensated absences	375,224	-	9,323	365,901	225,000
Property Tax Debt – Law 146	6,171	-	343	5,828	343
Health Insurance Administration	312,891	-	-	312,891	-
Property Tax 13-14 Final Revision	<u>28,288</u>	<u>-</u>	<u>-</u>	<u>28,288</u>	<u>28,288</u>
<b>Total</b>	<b><u>\$ 5,059,848</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 135,097</u></b>	<b><u>\$ 4,924,751</u></b>	<b><u>\$ 383,173</u></b>

**A. GENERAL OBLIGATIONS BONDS AND NOTES**

The Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. Bonds and notes payables as of June 30, 2014, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$2,125,000, Series 2009, for construction purposes, payable in annual installments ranging from \$30,000 to \$175,000, excluding interests from 1.55% to 7.50%, through July 1, 2033	\$ 1,850,000
\$400,000, Series 2011, for operational purposes, payable in annual installments ranging from \$10,000 to \$35,000, excluding interests from 6.00% to 7.50%, through July 1, 2031	<u>350,000</u>
<b>Total General Obligations – Bonds</b>	<b><u>\$ 2,200,000</u></b>

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These bonds and notes are payable with the following Municipality's resources:

- ❖ Special ad valorem property tax, which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes and;
- ❖ Municipal sales taxes resources restricted for debt service.

**B. BONDS AND NOTES AMORTIZATION**

The annual requirements to amortize the general obligations outstanding as of June 30, 2015 are as follows:

Year Ending June 30,	Principal payment	Interest payment	Total
2016	\$ 50,000	\$ 165,000	\$ 215,000
2017	70,000	160,500	230,500
2018	75,000	155,251	230,251
2019	80,000	149,626	229,626
2020	85,000	143,625	228,625
2021-2025	530,000	612,755	1,142,755
2026-2030	770,000	381,378	1,151,378
2031-2035	<u>530,000</u>	<u>78,378</u>	<u>608,378</u>
<b>Total</b>	<b><u>\$ 2,200,000</u></b>	<b><u>\$ 1,846,513</u></b>	<b><u>\$ 4,036,513</u></b>

**C. PROPERTY TAX DEBT – LAW 42**

The Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The outstanding balance of the note payable to the CRIM at June 30, 2014 amounted to \$2,011,843.

**D. COMPENSATED ABSENCES**

The government-wide statement of net position includes \$365,901 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

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**E. PROPERTY TAX DEBT – LAW 146**

On September 24, 2002, the CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2014 amounted to \$5,828.

**F. HEALTH INSURANCE ADMINISTRATION**

Liabilities of \$312,891 reported in the statement of net position represent the balance owed for services provided by the State Insurance Health Administration to the Municipality and not paid at June 30, 2015.

**G. CRIM 2013-2014 Final Revision**

For the fiscal year ended, June 30, 2015 the MRCC notify to the Municipality that the final settlement of property tax advances versus actual collections through fiscal year 2014 result in an overpayment to the Municipality of \$28,288.

**H. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS OBLIGATION**

The Municipality owns a municipal solid waste landfill. However, the Municipality has not adopted the required provisions of Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. According to these standard and regulations, the Municipality is required to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality is required to report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. The accompanying statement of net position does not included the required liability for closure and postclosure care costs of the solid waste landfill using current cost allocated based on the actual landfill capacity used at June 30, 2015.

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**NOTE 9 – DEBT RETIREMENT**

Revenues of the debt service fund consist of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality.

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality. Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

**NOTE 10 – PROPERTY TAXES**

The Municipality is authorized by Law No. 81 to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2015 was 6.83% (of which taxpayers pay 5.80% and 1.03% is reimbursed by the Department of Treasury).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated to 1957 market prices. The total real property tax rate in force at June 30, 2014 was 8.83% (of which 7.77% is paid by taxpayers and 1.03% is also reimbursed by the Department of Treasury).

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic tax (4% and 6% for personal and real property, respectively) to the Municipality, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made.

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

This settlement has to be completed on a preliminary basis not later than each December 31. If CRIM remits to the Municipality property tax advances, which are less than the property tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Law No. 81 provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied and collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth.

In addition, 1.50% of the total personal and real property taxes collected by CRIM is restricted for the Municipality's debt service requirements and is retained by GDB for such purposes.

The Additional Lottery System of the Commonwealth (the "Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

- ❖ Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- ❖ An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

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**NOTE 11 – VOLUME OF BUSINESS TAXES**

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Culebra. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2015, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers. Any taxpayers that have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60% and 90% under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return to be filed every April 15 based on the actual volume of business generated in the preceding calendar year.

Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax returns. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration.

The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5% discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the GFFS. At June 30, 2015 the Municipality collected in advance, \$162,211 of volume of business tax.

**NOTE 12 – SALES TAXES**

On July 4, 2006, the Legislature of the Commonwealth of Puerto Rico approved Act No. 117 (“Act 117”) which amends the Puerto Rico Internal Revenue Code of 1994 to provide for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth’s sales and use tax.

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Section 6189 of the Puerto Rico Internal Revenue Code of 1994, as amended, authorizes the Municipalities in Puerto Rico to impose a sales and use tax to consumers. This tax must be imposed in conformity with the base, exemptions and limitations contained Subtitle BB of the Code. The Municipal Sales Tax is specifically imposed over all sales transactions of taxable items and combined transactions (as defined by the municipal internal regulation) taken place within municipal limits. The Municipal Tax is also specifically imposed over the purchase price for the use, storage or consumption of taxable transactions (as defined by the municipal internal regulation) taken place within municipal limits.

The Municipal Legislature approved the imposition of the municipal sales and use tax, effective on July 1, 2006. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 10th day of each month based on tax collected in the preceding month. The Municipal Ordinance does not impose specific restrictions or limitations on the use of the municipal sales and use tax resources. Resources are recorded in the general fund of the Municipality.

**NOTE 13 – INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, “in lieu of tax” payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements.

Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the State Assignment, Sales Tax and Loans Funds.

**NOTE 14 – RETIREMENT PLAN**

As of June 30, 2015 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee’s Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems.

The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

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The system operates under Act 447, approved on May 15, 1951 effective on January 1, 1952 and Act 1 of February 16, 1990 for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS. Act No. 305 of September 24, 1999 amended Act. No. 447 of 1951 and Act 1 of February 16, 1990 to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan. There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was \$10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990. The Act No. 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 11.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

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In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan (“New Plan”).
- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act No. 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.
- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual’s life expectancy and a rate of return.
- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees’ contributions plus a return on investment)
- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.
- Increased employee contributions from 8.275% to a minimum of 10.000%.
- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System’s assets, reduce the actuarial deficit and enable the System to comply with future obligations.
- Retirement age was modified as follows:
  - Act No. 447 regular employees: age 58 to 61,
  - Act No. 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
  - Act No. 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

- Due to changes to Special Laws (see note 14), the minimum monthly pension for current retirees was increased from \$400 to \$500.

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 ( $\$5,000 \times .25\%$ ).
- Survivor benefits were modified.

On June 25, 2013, Act No. 32 was approved in order to amend Act No. 447 of 1957 by creating a new Article 5-117 Additional Uniform Contribution (AUC), with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

Act No. 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars (\$140,000,000).
- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars (\$1,000,000,000). If, for any fiscal, the certified AUD is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

The Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from \$600 to \$200 (current retirees),
- Elimination of summer bonus of \$100 (current retirees),
- No change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 (current retirees)
- Eliminated all Special Law benefits to future retirees.

Act 3 also established that employers will contribute \$2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

**NOTE 16 – CONTINGENCIES**

**A. CLAIMS AND JUDGMENTS**

The Municipality is, at present, a defendant in a number of legal claims and proceedings that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsels with the information currently available cannot determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

**B. FEDERAL GRANTS**

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**C. CONSTRUCTION**

The Municipality had commitments at June 30, 2015 of approximately \$200,000 for the construction, improvements, or renovation of several capital facilities and the capital assets.

**D. OTHER COMMITMENTS**

At June 30, 2015 the General Fund had commitments of approximately \$49,761 for executory purchase orders or contracts that will be honored during the subsequent year.

**NOTE 16 – FUND BALANCE (DEFICIT)**

As of June 30, 2015, the fund balance (deficit) classifications are as follows:

Fund Balance (Deficit)	General Fund	State Assignment Fund	Debt Service Fund	Other Governmental Fund	Total
<b>Restricted for:</b>					
Human Services and Welfare	\$ -	\$ -	\$ -	\$ -	\$ -
Urban Development	-	3,766,772	-	145,309	3,912,081
Education	-	-	-	-	-
Debt Service	-	-	1,194,739	-	1,194,739
<b>Total restricted</b>	<u>-</u>	<u>3,766,772</u>	<u>1,194,739</u>	<u>145,309</u>	<u>5,106,820</u>
<b>Assigned for:</b>					
Urban Development	832,730	-	-	-	832,730
<b>Unassigned</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Fund Balance (Deficit)</b>	<u>\$ 832,730</u>	<u>\$ 3,766,772</u>	<u>\$ 1,194,739</u>	<u>\$ 145,309</u>	<u>\$ 5,939,550</u>

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Financial Statements  
Year Ended June 30, 2015

**NOTE 17 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 23, 2016, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2015.

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Budgetary Comparison Schedule-General Fund  
Year Ended June 30, 2015

	Budget Amounts		(Budgetary Basis)	Final Budget
	Original	Final	(See Note A)	Positive (Negative)
Resources (Inflows)				
Property Taxes	\$ 494,792	\$ 494,792	\$ 494,791	\$ (1)
Volume of Business Taxes	149,202	149,202	195,632	46,430
Sales Taxes	1,063,564	1,063,564	-	(1,063,564)
Intergovernmental Revenues	2,663,555	2,663,555	2,687,072	23,517
Construction Excise Taxes	185,520	185,520	183,019	(2,501)
Rent	98,276	98,276	22,478	(75,798)
Miscellaneous	32,000	32,000	90,756	58,756
Total Resources (Inflows)	<u>4,686,909</u>	<u>4,686,909</u>	<u>3,673,748</u>	<u>(1,013,161)</u>
Charges to Appropriations (Outflows)				
Mayor and Municipal Legislature	622,745	629,745	576,795	(52,950)
General Government	2,423,635	2,428,418	1,996,344	(432,074)
Public Safety	216,081	207,081	175,037	(32,044)
Public Works	532,836	534,722	486,556	(48,166)
Culture and Recreation	210,204	210,204	205,999	(4,205)
Sanitation	403,508	399,508	362,522	(36,986)
Human Services and Welfare	197,486	198,937	175,513	(23,424)
Urban Development	-	-	-	-
Education	80,414	78,294	66,818	(11,476)
Total Charges to Appropriations	<u>4,686,909</u>	<u>4,686,909</u>	<u>4,045,584</u>	<u>(641,325)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (371,836)</u>	<u>\$ (371,836)</u>

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Budgetary Comparison Schedule-General Fund  
Year Ended June 30, 2015

Explanation of Differences:	
<u>Sources/Inflows of Resources:</u>	
Actual amounts (budgetary basis)“available for appropriation” from the budgetary comparison schedule	\$ 3,673,648
Differences-budget to GAAP:	
GAAP adjustments to revenues	<u>955,918</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 4,629,566</u>
<u>Uses/outflows of resources:</u>	
Actual amounts (budgetary basis)“total charges to appropriations” from the budgetary comparison schedule	\$ 4,045,584
Differences-budget to GAAP:	
Prior year expenditures are not outflows of budgetary resources but are expenditures for financial reporting purposes placed fo budgetary purposes	52,162
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes	(52,950)
Adjustment to expenditures	<u>1,178,662</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 5,223,458</u>

See notes to Budgetary Comparison Schedule - General Fund

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to Budgetary Comparison Schedule-General Fund  
Year Ended June 30, 2015

NOTE 1 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund.

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

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

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico-Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 18,210
Total U.S. Department of Agriculture			<u>18,210</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State’s Program	14.228	Various	1,361,117
Total U.S. Department of Housing and Urban Development			<u>1,361,117</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-Through State - Governor's Authorized Representative:			
Disaster Grants- Public Assistance	97.036	Not Available	28,168
Hazard Mitigation Grant	97.067	Not Available	37,500
Total U.S. Department of Homeland Security			<u>65,668</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE			
Pass-Through State - Office of Governor, Regional Elderly Office:			
Special Program for Aging, Title III, Part B	93.045	Not Available	90,435
Pass-Through State - Administration of Children and Families:			
Child Care and Development Block Grant	93.575	Not Available	253,721
Total U.S. Department of Health and Human Service			<u>344,156</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,789,151</u></u>

See notes to Schedule of Expenditures of Federal Awards

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Notes to the Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2015

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Culebra and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund 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.

NOTE 2 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule are included in the CDBG Fund and in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund financial statements and the expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Description	CDBG Fund	Other Governmental Funds
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 1,361,117	\$ 428,034
Non-federal awards expenditures	-	107,677
Total expenditures, fund statement	<u>\$ 1,361,117</u>	<u>\$ 535,711</u>



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

Honorable Major and Members of the Municipal Legislature  
Municipality of Culebra, Commonwealth of Puerto Rico:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Culebra, Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 23, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Municipality of Culebra' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Culebra' internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Culebra' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*TCRA2 Associates, LLC*

San Juan, Commonwealth of Puerto Rico  
March 23, 2016

Stamp No. E183990 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.



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## **INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Honorable Major and Members of the Municipal Legislature  
Municipality of Culebra, Commonwealth of Puerto Rico:

### **Report on Compliance for Each Major Federal Program**

We have audited Municipality of Culebra’s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Municipality of Culebra’s major federal programs for the year ended June 30, 2014. Municipality of Culebra’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

### **Management’s Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor’s Responsibility**

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

(Continued)



We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality of Culebra's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Municipality of Culebra complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### **Report on Internal Control over Compliance**

The Municipality of Culebra is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality of Juncos' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Juncos' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

(Continued)

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*TCRA2 Associates, LLC*

San Juan, Commonwealth of Puerto Rico  
March 23, 2016

Stamp No. E213121 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2015

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

*Financial Statements:*

Type of auditor's report issued Adverse

*Internal Control over financial reporting:*

Material weaknesses identified? NO

Significant deficiencies identified that are not considered to be material weaknesses? NO

Non-compliance material to financial statements noted? NO

*Federal Awards:*

Internal Control

Material weaknesses identified? NO

Significant deficiencies identified that are not considered to be material weaknesses? NO

Type of auditor's report issued on major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? YES

Identification of major program as noted below:

<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>	<u>Funding Source</u>
14.228	Community Development Block Grants – State’s Program	U.S. Department of Housing and Urban Development

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

Auditee qualified as low-risk auditee? NO

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2015

**Section II – Financial Statements Findings**

Finding reference	2015-1
Requirement	Financial Reporting – Accounting Records
Statement of Condition	<p>During our examination of the Municipality’s accounting system, we noted that the Municipality’s accounting records for Local, State and Federal funds does not provide modified basis financial statements. Also, the accounting system does not offer subsidiaries to produce government wide financial statements. The computerized system provided by the Office of Commissioner of Municipal Affairs (OCAM) and manual system maintained by the finance department personnel do not provide adequate and effective financial information to generate the basic financial statements.</p> <p>Therefore, the Municipality’s hires the professional services of a Certified Public Accountant to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and Law 81.</p>
Criteria	Chapter VIII, Article 8.010 of the 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 accounting data is not summarized in the form of a double-entry General Ledger record.
Effect of Condition	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend to the Municipality management to implement internal control and procedures in order to maintain a double entry accounting system that contains accurate information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2015

**Section III – Federal Awards Findings**

Nothing to report.

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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CULEBRA

Report on the Status of Uncorrected Material Findings and Recommendations from Prior Audits that  
Affect the Financial Statement Audits as Required by Government Auditing Standards  
Year Ended June 30, 2015

Finding 14-3 Municipal Solid Waste Landfill

Not corrected. At the date of our audit the Municipality does not maintained a complete and adequate record to obtain competent evidential matter with respect to closure and post-closure cost of the municipal solid waste landfill.

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Independent Auditor's Conclusion on the Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2015

As part of the Municipality single audit, we follow up on prior year audit findings and performed procedures to assess the reasonableness of the Summary Schedule of Prior Audit Findings. Our follow up conclusions follows:

Original Finding Number	CFDA No.	Prior Year Audit Federal Award Finding Description	Independent Auditor's Conclusion
14-1	CDBG 14.228	<u>Cash Management</u> - The program does not maintain proper procedures to minimize time elapsing between funds received and disbursed. As per contract agreement, the program cannot maintain the cash in bank for more than three (3) business days. This finding has been detected in prior year's audits.	Audit Finding not Corrected
14-2	CDBG 14.228	<u>Equipment and Real Property Management</u> – The program does not maintain proper and complete record of equipment and property acquired. Also accounting records are not reconciled with the record the program keeps.	Audit Finding not Corrected
14-3	CDBG 14.228	<u>Reporting</u> – Our test of reporting reveals that all the quarterly reports were filed late.	Audit Finding not Corrected
13-1	CDBG 14.228	<u>Cash Management</u> - The program does not maintain proper procedures to minimize time elapsing between funds received and disbursed. As per contract agreement, the program cannot maintain the cash in bank for more than three (3) business days. This finding has been detected in prior year's audits.	Audit Finding not Corrected

(Continued)

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF CULEBRA  
Independent Auditor's Conclusion on the Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2015

Original Finding Number	CFDA No.	Prior Year Audit Federal Award Finding Description	Independent Auditor's Conclusion
13-2	CDBG 14.228	<u>Equipment and Real Property Management</u> – The program does not maintain proper and complete record of equipment and property acquired. Also accounting records are not reconciled with the record the program keeps.	Audit Finding not Corrected
13-3	CDBG 14.228	<u>Period of Availability of Federal Funds</u> – During our test of Availability of Federal Funds we noted than funds pertaining to years 2009 and 2010 and amounting \$690379 and \$858,891, respectively, were not obligated within 24 months period required.	Audit Finding not Corrected
13-4	CDBG 14.228	<u>Suspension and Debarment</u> - The Municipality does not have procedures in place to verify status of an entity as to suspensions and debarments when contracting services or procuring goods with federal funds.	Audit Finding not Corrected
13-5	CDBG 14.228	<u>Monitoring</u> - The Municipality officials are not monitoring the funding period to ascertain that program funds are obligated and expensed within the 24 months and 4 years period, respectively.	Audit Finding not Corrected