

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

MUNICIPIO DE CEIBA
AUDITORIA 2006-2007
30 DE JUNIO DE 2007

COMISIONADO
MUNICIPALES
08-361
JAN 22 AM 9:15
UNIDAD DE CORREO

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2007**

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

TABLE OF CONTENTS

	<u>Pages</u>
PART I – FINANCIAL SECTION	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements-Governmental Funds	
Balance Sheet	12-13
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities . . .	16
Statement of Revenues, and Expenditures - Budget and Actual - General and Debt Service Funds	17
Notes to Basic Financial Statements	18-43

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

TABLE OF CONTENTS (CONTINUED)

	<u>Pages</u>
PART II – SINGLE AUDIT SECTION	
Schedule of Expenditures of Federal Awards	45
Notes to Schedule of Expenditures of Federal Awards	46
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	47-48
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	49-51
Schedule of Findings and Questioned Costs	52-57
Schedule of Status of Prior Year Audit Findings and Questioned Costs	58-59
 EXHIBIT I – CORRECTIVE ACTION PLAN	

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

PART I - FINANCIAL SECTION

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Municipal Legislature
Municipality of Ceiba
Ceiba, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Ceiba, as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Municipality's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 20, to the financial statements, management has not recorded a liability for estimated landfill postclosing costs in governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America and state and federal regulations require that a liability for estimated landfill postclosing costs be accrued. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonable determinable.

In our opinion, except for the effects, if any, of not provide a liability for postclosure care costs in the governmental activities as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Municipality of Ceiba as of June 30, 2007, and the respective changes in financial position, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, 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 Ceiba as of June 30, 2007, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and debt service funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2007, 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 grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

San Juan, Puerto Rico
November 12, 2007

The stamp 2286459 was affixed
to the original of this report.



-2-
ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Municipality of Ceiba (the "Municipality") discussion and analysis has been designed with the following goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and;
- e) Identify individual fund issues or concerns.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality net assets amounted to \$6,755,055.
- The general fund balance amounts to \$1,287,763.
- Capital assets amounted to \$8,294,177.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide users of the financial statements with a broad overview of the Municipality's finances in a manner similar to private-sector companies.

The Statement of Net Assets presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

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, Government 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 is useful in evaluating the Municipality's near term financial 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, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

The Municipality has elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Municipality's net assets totaled \$6,755,055 million at the end of 2007, compared to \$7,137,167 million at the end of the previous year.

The largest portion of the Municipality's net assets consists of the investment made throughout the years in capital assets such as land, buildings, equipment and infrastructure. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represents another portion of the net assets, and these are resources subject to external restrictions for the purposes explained above.

The unrestricted deficit is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and claims and judgments among others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations. The restricted portion consists of monies reserved for debt service and future capital expenditures.

Condensed Statement of Net Assets

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Current assets	\$ 4,135,342	\$ 4,506,702
Capital assets	<u>8,294,177</u>	<u>8,440,364</u>
Total assets	<u>12,429,519</u>	<u>12,947,066</u>
Current liabilities	1,318,075	1,372,975
Noncurrent liabilities	<u>4,356,389</u>	<u>4,436,924</u>
Total liabilities	<u>5,674,464</u>	<u>5,809,899</u>
Invested in capital assets, net of related debt	6,819,270	6,887,423
Restricted	420,653	411,349
Unrestricted	<u>(484,868)</u>	<u>(161,605)</u>
Total net assets	<u>\$ 6,755,055</u>	<u>\$ 7,137,167</u>

Changes in Net Assets

The Municipality's net assets decreased by \$382,112. Approximately 72 percent of the Municipality's total revenue came from grants and contributions, including federal aid, while 14 percent resulted from taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government, public safety, public works and health and welfare.

Condensed Statement of Activities June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Program revenues		
Charges for services	\$ 93,214	\$ 616,146
Operating grants and contributions	584,526	840,065
Capital grants and contributions	464,884	736,771
General revenues		
Property taxes	574,253	636,313
Municipal license tax	514,737	174,301
Sales and use tax	112,334	-
Grants and contributions not restricted to specific programs	5,246,759	4,477,143
Interest and investment earnings	156,786	14,341
Miscellaneous	1,037,991	993,291
Total revenues	<u>8,785,484</u>	<u>8,488,371</u>
Expenses		
General government	4,299,628	1,231,079
Public safety	886,182	678,662
Public works	2,518,768	2,515,826
Culture and recreation	355,534	316,170
Health and welfare	942,291	980,334
Education	2,083	1,452
Interest on long-term debt	163,110	189,513
Total expenses	<u>9,167,596</u>	<u>5,913,036</u>
Change in net assets	(382,112)	2,575,335
Net assets, beginning of year	<u>7,137,167</u>	<u>4,336,282</u>
Net assets, end of year	<u>\$ 6,755,055</u>	<u>\$ 6,911,617</u>

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$2,817,267 a decrease of \$316,460 in comparison with the prior year. There are reservations of fund balance amounting to \$1,610,516. This is the fund balance that is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$95,470), 2) to pay debt service (\$420,653) and 3) for capital projects (\$1,094,393).

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2007, the general fund has a balance of \$1,287,763. The fund balance decreased by \$295,764 during fiscal year 2007.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that affected the Municipality's finances.

The most significant variance between budget and actual results were:

- Negative variance of \$571,924 in License, Permits and Other Taxes
- Negative variance of \$799,691 in Other Revenues
- Positive variance of \$469,021 in General Government Expenditures

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2007, amounts to \$10,352,423, net of accumulated depreciation of \$2,058,245, leaving a net book value of \$8,294,177. This investment in capital assets includes land, buildings, improvements, equipment, intangibles, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total decrease in the Municipality's investment in capital assets for the current fiscal year was about 1.7% in terms of net book value. Actual expenditures to purchase or construct capital assets were \$191,955 for the year. Depreciation charges for the year totaled \$338,143.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2007 the Municipality has \$1,094,393 of unexpended proceeds from bond issuances that are committed to future construction activities.

Debt Administration

The Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes such municipality must have sufficient "payment capacity." Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

Those factors were considered when preparing the Municipality's budget for the 2007-2008 fiscal year.

The most significant change between the budget for fiscal year 2006-2007 and the one for fiscal year 2007-2008 is the following:

- Increase in Intergovernmental Revenue amounting to \$471,070. Increase in budgeted intergovernmental revenue is mainly due to the expectation of an increase in the revenues received from the central government. These revenues are granted via a formula based on the revenues of the central government. Accordingly, if the revenues of the central government are expected to increase from one year to the other the revenue received by the Municipality is also expected to increase.
- Increase in general government expenditures amounting to \$282,289. This increase is mainly related to an across the board increase to municipal employees.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 1st floor of the Town Hall, Ceiba, Puerto Rico.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
STATEMENT OF NET ASSETS
JUNE 30, 2007**

<u>Assets</u>	<u>Governmental Activities</u>
Cash (Notes 2 and 5)	\$ 2,443,383
Cash with fiscal agent (Notes 2 and 5)	1,073,419
Accounts receivable - municipal license tax	2,542
Due from other agencies (Note 9)	615,998
Capital assets, net (Note 11)	<u>8,294,177</u>
 Total assets	 <u>\$ 12,429,519</u>
 <u>Liabilities and Net Assets</u>	
Liabilities	
Accounts payable and accrued liabilities	\$ 185,731
Due to other agencies (Note 12)	762,801
Deferred revenues (Note 13):	
Municipal license tax	286,925
Federal government	82,618
Noncurrent liabilities (Note 15):	
Due within one year	359,785
Due in more than one year	<u>3,996,604</u>
Total liabilities	<u>5,674,464</u>
Net Assets	
Investment in capital assets, net of related debt	6,819,270
Restricted for:	
Debt service	420,653
Unrestricted	<u>(484,868)</u>
 Total net assets	 <u>\$ 6,755,055</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
General government	\$ 4,299,628	\$ 93,214	\$ -	\$ -	\$ (4,206,414)
Public safety	886,182		29,960		(856,222)
Public works	2,518,768		265,859	464,884	(1,788,025)
Recreation	355,534				(355,534)
Health and welfare	942,291		288,707		(653,584)
Education	2,083				(2,083)
Interest on long-term debt	163,110				(163,110)
Total	\$ 9,167,596	\$ 93,214	\$ 584,526	\$ 464,884	(8,024,972)
General revenues:					
Property taxes					574,253
Municipal license tax					514,737
Sales and use tax					112,334
Grants and contributions not restricted to specific programs					5,246,759
Interest, fines and penalties					156,786
Miscellaneous					1,037,991
Total general revenues					7,642,860
Change in net assets					(382,112)
Net assets at beginning of year					7,137,167
Net assets at end of year					\$ 6,755,055

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2007**

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash (Notes 2 and 5)	\$ 1,715,318	\$ 140,138	\$ -	\$ 451,746	\$ 136,181	\$ 2,443,383
Cash with fiscal agent (Notes 2 and 5)	17,837		412,935	642,647		1,073,419
Accounts receivable - municipal license taxes	2,542					2,542
Due from other agencies (Note 9)	608,280		7,718			615,998
Due from other funds	179,243					179,243
Total assets	\$ 2,523,220	\$ 140,138	\$ 420,653	\$ 1,094,393	\$ 136,181	\$ 4,314,585

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2007**

<u>Liabilities and Fund Balance</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities						
Account payable and accrued liabilities	\$ 185,731	\$ -	\$ -	\$ -	\$ -	\$ 185,731
Due to other agencies (Note 12)	762,801					762,801
Due to other funds		179,243				179,243
Deferred revenues: (Note 13)						
Municipal license tax	286,925					286,925
Federal government					82,618	82,618
Total liabilities	<u>1,235,457</u>	<u>179,243</u>	<u>-</u>	<u>-</u>	<u>82,618</u>	<u>1,497,318</u>
Commitments and Contingencies (Notes 18 and 19)						
Fund Balances (Deficit)						
Reserved for:						
Encumbrances	95,470					95,470
Capital projects				1,094,393		1,094,393
Debt service			420,653			420,653
Unreserved fund balance (deficit)	1,192,293	(39,105)			53,563	1,206,751
Total fund balance (deficit)	<u>1,287,763</u>	<u>(39,105)</u>	<u>420,653</u>	<u>1,094,393</u>	<u>53,563</u>	<u>2,817,267</u>
Total liabilities and fund balance	<u>\$ 2,523,220</u>	<u>\$ 140,138</u>	<u>\$ 420,653</u>	<u>\$ 1,094,393</u>	<u>\$ 136,181</u>	<u>\$ 4,314,585</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total fund balances - governmental funds	\$2,817,267
Amounts reported for governmental activities in the statement of net assets are different because:	
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	8,294,177
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (Note 4)	<u>(4,356,389)</u>
Net assets of governmental activities	<u>\$6,755,055</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General	Housing and Urban Development Programs	Debt Service	Capital Project	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes (Note 6)	\$ 269,638	\$ -	\$ 304,615	\$ -	\$ -	\$ 574,253
Municipal license taxes (Note 7)	514,737					514,737
Sales and use taxes (Note 8)	112,334					112,334
Licenses and permits	93,214					93,214
Intergovernmental revenues (Note 14):						
Federal grants and contributions		484,761			99,765	584,526
State contributions	5,246,759			464,884		5,711,643
Interest, fines, and penalties	144,216		12,570			156,786
Other revenues	1,037,991					1,037,991
Total revenues	<u>7,418,889</u>	<u>484,761</u>	<u>317,185</u>	<u>464,884</u>	<u>99,765</u>	<u>8,785,484</u>
EXPENDITURES						
Current:						
General government	3,793,105					3,793,105
Public safety	847,498				29,960	877,458
Public works	2,105,541	392,893				2,498,434
Recreation	238,624					238,624
Health and welfare	607,679	193,950			94,757	896,386
Capital outlays				572,850		572,350
Debt service						
Principal retirement			266,977			266,977
Interest and other			163,110			163,110
Total expenditures	<u>7,592,447</u>	<u>586,843</u>	<u>430,087</u>	<u>572,850</u>	<u>124,717</u>	<u>9,306,944</u>
Deficiency of revenues under expenditures	<u>(173,558)</u>	<u>(102,082)</u>	<u>(112,902)</u>	<u>(107,966)</u>	<u>(24,952)</u>	<u>(521,460)</u>
OTHER FINANCING SOURCES (USES)						
Bond issuance				205,000		205,000
Transfers in	12,034		134,240			146,274
Transfers out	<u>(134,240)</u>		<u>(12,034)</u>			<u>(146,274)</u>
Total other financing sources (uses)	<u>(122,206)</u>	<u>-</u>	<u>122,206</u>	<u>205,000</u>	<u>-</u>	<u>205,000</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>(295,764)</u>	<u>(102,082)</u>	<u>9,304</u>	<u>97,034</u>	<u>(24,952)</u>	<u>(316,460)</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>1,583,527</u>	<u>62,977</u>	<u>411,340</u>	<u>997,359</u>	<u>78,515</u>	<u>3,133,727</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ 1,287,763</u>	<u>\$ (39,105)</u>	<u>\$ 420,644</u>	<u>\$ 1,094,393</u>	<u>\$ 53,563</u>	<u>\$ 2,817,267</u>

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

157,763

Ortiz
2/28/08
W

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds \$ (316,460)

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 191,955
- Governmental funds report issuance of long-term debt as other financial resources because provided current financial resources. (205,000)
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (338,142)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 266,977
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. 18,558

Changes in net assets of governmental activities \$ (382,112)

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL-GENERAL AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General Fund				Debt Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final			Original	Final		
REVENUES								
Property taxes	\$ 328,022	\$ 328,022	\$ 328,022	\$ -	\$ 275,175	\$ 275,175	\$ 304,615	\$ 29,440
Municipal license taxes	397,842	397,842	515,759	117,917				
Licenses and permits	651,500	651,500	79,576	(571,924)				
Charges for services and rent	9,200	9,200		(9,200)				
Intergovernmental revenues:								
State contributions	4,987,916	5,178,791	5,201,858	23,067				
Interest, fines, and penalties	11,000	11,000	225,810	214,810				
Other revenues	816,100	816,100	16,409	(799,691)			12,570	12,570
Total revenues	<u>7,201,580</u>	<u>7,392,455</u>	<u>6,367,434</u>	<u>(1,025,021)</u>	<u>275,175</u>	<u>275,175</u>	<u>317,185</u>	<u>42,510</u>
EXPENDITURES								
Current:								
General government	3,222,246	3,376,465	3,305,766	70,699				
Public safety	960,829	944,635	847,497	97,138				
Public works	2,122,686	2,198,879	2,115,774	83,105				
Recreation	261,600	267,618	238,624	28,994				
Health and welfare	634,219	604,858	607,678	(2,820)				
Debt service:								
Principal					188,000	188,000	266,977	78,977
Interest					130,475	130,475	163,110	32,635
Total expenditures	<u>7,201,580</u>	<u>7,392,455</u>	<u>7,115,339</u>	<u>277,116</u>	<u>318,475</u>	<u>318,475</u>	<u>430,087</u>	<u>111,612</u>
Deficiency of revenues under expenditures	\$ -	\$ -	\$ (747,905)	\$ (747,905)	\$ (43,300)	\$ (43,300)	\$ (112,902)	\$ (69,602)

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. ORGANIZATION

The Municipality of Ceiba, Puerto Rico (Municipality) was founded in 1838. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial information of the Municipality is presented in this report as follows:

- **Management's Discussion and Analysis** - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- **Government - Wide Financial Statements** - This reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- **Statement of Net Assets** - The statement of net assets is designed to display the financial position of the Municipality, including capital assets and infrastructure.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The net assets of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- **Statement of Program Activities** - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- **Budgetary comparison schedules** - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies.

a. Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14, "The Financial Reporting Entity," of the GASB. The basic, but not the only criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exist for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions. Based on the aforementioned criteria, the Municipality has no component units.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

3) Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

4) Capital Project Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

Private-section standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, licenses, permits, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

d. Cash and Cash with Fiscal Agent

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposits with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB).

Cash with fiscal agent in the capital project's fund consists of unused proceeds from appropriations from the Legislature of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

e. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

f. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

	<u>Useful Life</u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years
Works of art	5 years

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

g. Reservation of Fund Balance

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

1) Encumbrances

Represent future expenditures under purchase orders, contracts and other commitments. These committed amounts generally will become liabilities in future periods as the goods or services are received.

2) Debt Service

Represents net assets available to finance future debt service payments.

3) Capital Projects Fund

Represents the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. The committed amounts generally will become liabilities in future periods as the projects are completed.

h. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2007 amounted to approximately \$102,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$147,000 for workers compensation insurance covering all municipal employees.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

i. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as an expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

j. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

<u>Statement Number</u>	<u>Statement Name</u>	<u>Adoption Required in Fiscal Year</u>
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity transfers of Assets and Future Revenues	2007-08
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2007-08
50	Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27.	2007-08
51	Accounting and Financial Reporting for Intangible Assets	2009-10

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

k. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general and the debt service funds.

Revenues and Expenditures - Budget and Actual (Budgetary Basis), accordingly, includes only the operations of the general and the debt service funds. The amounts budgeted under the Special Revenue Fund were excluded since they are received and expended over a period of time which generally exceeds the current year.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

b. Budget/GAAP Reconciliation

The following schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of entity and timing differences in the excess of revenues over expenditures for the year ended June 30, 2007 is presented below for the general fund and debt service funds:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Excess of expenditures over revenues - budgetary basis	(\$747,905)	(\$112,902)
Entity differences:		
Non-budgeted revenues, net	516,332	
Non-budgeted transfer in	12,034	134,240
Non-budgeted transfer out	(134,240)	(12,034)
Timing differences:		
Prior year encumbrances recorded as current year expenditures for GAAP basis	(66,027)	
Current year encumbrances recorded as expenditures for budgetary basis	95,470	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General Fund	Debt Service Fund
Basis of accounting differences:		
Net change in receivables	\$ 14,662	\$ -
Net change in payables	<u>13,910</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures - GAAP basis	(<u>\$295,764</u>)	<u>\$ 9,304</u>

c. Legal Compliance

The legal level of budgetary control is at the individual department level for general fund expenditures, and principal and interest due for the debt service fund.

4. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$4.4 million difference are as follows:

Bonds payable	\$2,569,300
Note payable	806,479
Compensated absences	804,006
Due to Puerto Rico Treasury Department	102,906
Due to Puerto Rico Health Insurance Administration	<u>73,698</u>
Net adjustment to reduce fund balance governmental funds to arrive at net assets of governmental activities	<u>\$4,356,389</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

5. DEPOSITS - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

The Municipality's bank balances in commercial banks of approximately \$2.4 million in the governmental activities were fully collateralized at June 30, 2007. The deposits at GDB of approximately \$643,000 that are restricted principally for capital projects, and the \$360,000 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposits in one bank located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

6. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The rates are 7.88% for real property and 5.88% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	5.80%	3.80%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	1.25%	1.25%
Discounts made by state to tax payer	< <u>.20%</u> >	< <u>.20%</u> >
	<u>7.88%</u>	<u>5.88%</u>

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

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

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

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

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

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuring fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2006-07, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

Based on the preliminary settlement already received, for the year ended June 30, 2007, the amount received by CRIM, less than the amount collected from taxpayers and charges by CRIM received by the Municipality for the same period by approximately \$15,000. Such amount is presented as due from other governmental agencies in the general fund in the basic financial statements. (See Note 9).

7. MUNICIPAL LICENSE TAX

Municipal License Tax is recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2007. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations who have operations in the Municipality of Ceiba, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Ceiba, are as follows:

Savings and loans associations	= 1.50%
Financial institutions	= 1.50%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Other organizations:	
\$5,000 to \$70,000	= .35%
\$70,001 to \$100,000	= .40%
Over \$100,000	= .45%

The amounts collected in advance are recorded as deferred revenues in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$287,000, corresponding to the next fiscal year municipal license.

8. SALES AND USE 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, among other things, for a sales and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sales 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.

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 in 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 Sales 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 November 15, 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 20th 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

9. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power of Authority	\$593,748
Municipal Revenue Collection Center (General Fund)	14,532
Municipal Revenues Collection Center (Debt Service Fund)	<u>7,718</u>
Total	<u>\$615,998</u>

10. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

The due from and due to other fund balances as of June 30, 2007 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	HUD Programs	<u>\$179,243</u>

The balance of \$179,243 due from HUD Programs mainly represents disbursements made by the general fund to cover payroll and related fringe benefits.

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2007 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 12,034
Debt Service	General	<u>134,240</u>
Total		<u>\$146,274</u>

The transfer from the general fund to the debt service fund of \$134,240 represents monies transferred to cover debt service payments as become due.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

11. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Capital assets, not being depreciated:				
Land	\$ 2,017,998	\$ -	\$ -	\$ 2,017,998
Construction in progress	166,967	26,610	166,967	26,610
Total capital assets, not being depreciated	<u>2,184,965</u>	<u>26,610</u>	<u>166,967</u>	<u>2,044,608</u>
Capital assets, being depreciated:				
Buildings and building improvements	3,395,726			3,395,726
Site improvements	1,393,467	40,900		1,434,367
Vehicles and equipment	755,576	40,568		796,144
Works of art	20,000			20,000
Infrastructure	2,410,733	250,844		2,661,577
Total capital assets, being depreciated	<u>7,975,502</u>	<u>332,312</u>	<u>-</u>	<u>8,307,814</u>
Less accumulated depreciation for:				
Buildings and building improvements	557,874	143,641		701,515
Site improvements	376,277	73,192		449,469
Vehicles and equipment	642,227	45,517		687,744
Works of art	8,000	4,000		12,000
Infrastructure	135,725	71,792		207,517
Total accumulated depreciation	<u>1,720,103</u>	<u>338,142</u>	<u>-</u>	<u>2,058,245</u>
Total capital assets, being depreciated, net	<u>6,255,399</u>	<u>(5,830)</u>	<u>-</u>	<u>6,249,569</u>
Governmental activities capital assets, net	<u>\$ 8,440,364</u>	<u>\$ 20,780</u>	<u>\$ 166,967</u>	<u>\$ 8,294,177</u>

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

General government	\$144,187
Public safety	8,724
Public works	20,334
Culture and recreation	118,993
Health and welfare	<u>45,904</u>
Total	<u>\$338,142</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

12. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2007 are as follows:

Puerto Rico Electric Power Authority	\$666,085
Retirement System Administration	46,424
Puerto Rico Treasury Department	26,830
Puerto Rico General Services Administration	20,576
Puerto Rico Water and Sewer Authority	<u>2,886</u>
Total	<u>\$762,801</u>

13. DEFERRED REVENUES

a. Municipal License Tax

The deferred revenues of approximately \$287,000 in the general fund related to municipal license tax collected in fiscal year 2005-06 that will be earned in fiscal year 2006-07.

b. Federal Government

The deferred revenues presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant. These were related to the following federal programs/grants:

Program/Grant Description

Other governmental funds	<u>\$82,618</u>
--------------------------	-----------------

14. INTERGOVERNMENTAL REVENUES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

15. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2007 are as follows:

Bonds

\$1,060,000 series of 1999, payable in annual installments of \$30,000 to \$125,000 until July 1, 2012, interest from 5% to 8%.	\$ 605,000
\$130,000 series of 2000, payable in annual installments of \$5,000 to \$15,000 until January 1, 2014, interest from 2.7% to 7.81%.	90,000
\$175,000 series of 1994, payable in annual installments of \$4,000 to \$12,000 until January 1, 2017, interest at 5%.	100,000
\$200,000 series of 1998, payable in annual installments of \$15,000 to \$30,000 until July 1, 2007, interest from 6% to 7.81%.	30,000
\$270,000 series of 2002, payable in annual installments of \$5,000 to \$25,000 until July 1, 2006, interest from 5% to 8%.	245,000
\$855,000 series of 2002, payable in annual installments of \$15,000 to \$65,000 until July 1, 2026, interest from 2.7% to 5.6%.	770,000
\$185,000 series of 2002, payable in annual installments of \$20,000 to \$30,000 until July 1, 2008, interest from 2.7% to 5%.	60,000
\$220,000 series of 2002, payable in annual installments of \$5,000 to \$20,000 until July 1, 2026, interest from 4.17% to 5.31%	195,000
\$30,000 series of 2002, payable in annual installments of \$2,200 to \$3,900 until July 1, 2011, interest from 5% to 6.5%	14,300
\$280,000 series of 2003, payable in annual installments of \$5,000 to \$25,000 until July 1, 2027, interest from 5% to 6.5%	255,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

\$205,000 series of 2007, payable in annual installments of \$25,000 to \$35,000 until July 1, 2013, interest from 6.48% to 7.5% \$ 205,000

Total bonds 2,569,300

Note Payable

\$858,336 property tax advance 1997-98 and 1998-99, payable in monthly installments of \$5,285 including interests until July 1, 2032, interest at 6.1875%. Refer to Note 6. 806,479

Other Long-Term Debts

Due to Puerto Rico Health Insurance Administration related to the Health Care Reform corresponding from December 1, 1995 through June 30, 1997. This balance will be paid through amounts retained by the CRIM from the participation in the Municipal Equalization Fund of the Additional Lottery System. 73,698

Payment plan to the Puerto Rico Treasury Department with a monthly payment of \$2,144, due in June 2011. 102,906

Total other long-term debts \$ 176,604

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The annual requirements for the amortization of general long-terms at June 30, 2007, are as follows:

	<i>Bonds Payable</i>		<i>Note Payable</i>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 221,200	\$ 138,568	\$ 13,585	49,693
2009	201,500	142,485	14,440	48,840
2010	182,700	129,765	15,346	47,933
2011	202,900	116,587	16,311	46,969
2012	205,000	102,360	17,336	45,944
2013-2017	586,000	358,240	104,450	211,946
2018-2022	400,000	239,022	141,658	174,741
2023-2027	570,000	95,790	192,115	124,282
2028-2032			260,548	55,850
2033-2037			30,690	950
	<u>\$ 2,569,300</u>	<u>\$ 1,322,817</u>	<u>\$ 806,479</u>	<u>\$ 807,148</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

As described in Note 6, the Municipality levies an annual special tax of 1.25% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable	\$ 2,550,300	\$ 205,000	\$ 186,000	\$ 2,569,300	\$ 221,200
Note payable - CRIM	812,967		6,488	806,479	13,585
Total long-term debt	3,363,267	205,000	192,488	3,375,779	234,785
Other Long-Term Liabilities:					
Due to Puerto Rico Treasury Department	128,633		25,727	102,906	
Due to PR Health Insurance Adm.	122,460		48,762	73,698	-
Compensated absences	822,566	119,727	138,287	804,006	125,000
Total other liabilities	1,073,659	119,727	212,776	980,610	125,000
Total noncurrent liabilities	\$ 4,436,926	\$ 324,727	\$ 405,264	\$ 4,356,389	\$ 359,785

16. RETIREMENT PLAN

a. Plan Description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Puerto Rico. The System was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirements systems.

Participation is mandatory except for members of the Legislature, Government Secretaries, Heads for Agencies and Public Instrumentalities, Assistants to the Governor, the Comptroller of Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees.

ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

Members who have attained an age of at least fifty-five (55) years and have completed at least twenty-five (25) years of creditable service or members who have attained an age of at least fifty-eight (58) years and have completed at least fifty-eight (58) years and have completed at least ten (10) years of creditable service, are entitled to an annual benefit, payable monthly for life.

The amounts of the annuity will be one and one-half percent of the average compensation multiplied by the number of years of creditable service up to twenty years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of twenty years. In no case the annuity will be less than \$200 per month.

Participants who have completed at least thirty (30) years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained fifty-five (55) years of age will receive 65% of the average compensation or if they have attained fifty-five (55) years of age will receive 75% of the average compensation. Disability retirement benefits are available to members for occupational and non-occupational disability. However, for non-occupational disability a member must have at least ten (10) years of service.

No benefit is payable if the participant receives a refund of his accumulated contributions.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

created ERS, was enacted with the purpose of establishing a new pension program (System 2000). Employees participating in the current system as of December 31, 1999, may elect to stay in the defined benefit plan or transfer to the new program. Persons joining the Municipality on or after January 2000, will only be allowed to become members of System 2000. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

b. Contribution Requirements

Commonwealth legislation requires employees to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600. The Municipality's contributions are 9.275% of gross salary. Contributions' requirements are established by law. The actuarially determined contribution requirement and contributions actually made for the year ended June 30, 2007 was approximately \$230,000. The Municipality's payroll for employees covered by ERS was approximately \$2.5 million. The Municipality total payroll for all employees was approximately \$3.4 million.

Additional information on the ERS is provided in its financial statements for the year ended June 30, 2007, a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

17. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

18. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.
- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

19. COMMITMENTS

The Municipality of Ceiba had several outstanding or planned construction projects as of June 30, 2007. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$1.1 million.

20. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Municipality discontinued the operation and ceased to accept solid waste in 1993 in the landfill. State and Federal laws and regulations require the Municipality to perform certain closure and postclosure procedures and establish monitoring and maintenance functions at the landfill site for thirty years after closure.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost," the Municipality should perform a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable state and federal regulations and to determine an estimate of postclosure costs. As of June 30, 2007, no amount has been estimated as post closure cost of the landfill to be accounted for as required by accounting principles generally accepted in the United States of America and state and federal regulations.

21. SUBSEQUENT EVENT

On July 29, 2007, the Legislature of the Commonwealth of Puerto Rico enacted Act No. 80 (the "Act"), in order to make mandatory in all the municipalities of Puerto Rico the imposition of a uniform municipal tax of 1.5%, from which the municipalities shall collect 1% of the sales and use tax pursuant to what is established in Sections 2410 and 6189 of Act No. 117 of July 4, 2006, known as the "Taxpayer's Justice Act of 2006", which may be levied discretionary through municipal legislation, on food and food ingredients and to provide for the collection by the Secretary of the Treasury of the remaining .5% without including food and food ingredients to be used in accordance with the purposes established in the Act; to provide for the establishment of the Municipal Development Fund, the Municipal Redemption Fund, and the Municipal Improvement Fund, as well as for matters relative to the purposes, implementation and administration of said funds and to provide for the establishment of the necessary mechanisms for the collection of the municipal tax.

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 in 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 Sales 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.

PART II - SINGLE AUDIT SECTION

~~-44-~~

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct program:		
Section 8 Housing Choice Vouchers	14.871	\$ 179,061
Pass-through State -Commissioner Office of Municipal Affairs - Community Development State Block Grant Program - SBGP	14.228	392,893
Pass-through Municipality of San Juan Housing Opportunities for Persons with AIDS (HOPWA)	14.241	<u>14,889</u>
Subtotal U.S. Department of HUD		<u>586,843</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through Oficina de la Procuradora de las Personas de Edad Avanzada:		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	75,410
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	<u>19,347</u>
Subtotal U.S. Department of HHS		<u>94,757</u>
TOTAL		<u>\$ 681,600</u>

See notes to schedule of expenditures of federal awards.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Ceiba's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Total federal expenditures per schedule	<u>\$681,600</u>
Federal expenditures per basic financial statements included within:	
Housing and Urban Development Programs	\$586,843
Federal expenditures included within other governmental funds	<u>94,757</u>
Total	<u>\$681,600</u>



ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

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

To the Honorable Mayor and
Municipal Legislature
Municipality of Ceiba
Ceiba, Puerto Rico

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Ceiba, as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 12, 2007. The report on the governmental activities was qualified because management has not recorded a liability for estimated landfill postclosing costs and, accordingly, has not recorded an expense for the current period. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Municipality of Ceiba's internal control over financial reporting a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance

with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

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

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

San Juan, Puerto Rico
November 12, 2007

Ortiz, Rivera, Rivera & Co.

The stamp 2286460 was affixed
to the original of this report.





ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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

Members:
American Institute of Certified
Public Accountants (AICPA)
Puerto Rico Board of Certified
Public Accountants
Management Consulting
Services Division

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

To the Honorable Mayor
and Municipal Legislature
Municipality of Ceiba
Ceiba, Puerto Rico

Compliance

We have audited the compliance of Municipality of Ceiba with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Municipality of Ceiba's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Municipality of Ceiba's management. Our responsibility is to express an opinion on Municipality of Ceiba's compliance based on our audit.

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

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

As described in items 07-1 through 07-3 in the accompanying schedule of findings and questioned costs, the Municipality of Ceiba did not comply with requirements regarding cash management, equipment and real property management and Davis Bacon Act that are applicable to its Community Development Block Grant-States program. Compliance with such requirements is necessary, in our opinion, for the Municipality of Ceiba to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Municipality of Ceiba complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The management of Municipality of Ceiba is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Ceiba's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-2 and 07-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Municipality's internal control. However, we believe that none of the significant deficiencies described above is a material weaknesses.

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

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

San Juan, Puerto Rico
November 12, 2007

Ortiz, Rivera, Rivera, 'G

The stamp 2286461 was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. SUMMARY OF AUDIT RESULTS

- a. The auditors' report expresses a qualified opinion on the basic financial statements of the Municipality of Ceiba.
- b. There were no significant deficiencies on internal controls.
- c. No instances of noncompliance material to the financial statements of Municipality of Ceiba were disclosed during the audit.
- d. There were significant deficiencies on internal controls over major programs.
- e. The auditor's report on compliance for the major federal award programs for Municipality of Ceiba express a qualified opinion.
- f. Audit findings relation to the major federal award programs for Municipality of Ceiba are reported in number 3 of this schedule.
- g. The program tested as major program is SBGP - CFDA No. 14.228
- h. The threshold for distinguishing types A and B programs was \$300,000.
- i. Municipality of Ceiba was determined to be a high-risk auditee.

2. FINDINGS - FINANCIAL STATEMENTS AUDIT

None.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
SBGP CFDA No. 14.228	<p>Condition 07-1</p> <p>The Municipality's internal control over compliance with the cash management requirements of the federal program is not effective since it is not minimizing the time elapsed between the receipt and final disbursements of funds.</p> <p><u>Criteria</u></p> <p>The 24CFR 85.20(b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.</p> <p><u>Cause</u></p> <p>The Municipality does not keep adequate cash forecasting procedures because the Municipality has requested and received federal funds in excess of its immediate needs.</p> <p><u>Effect</u></p> <p>The continued occurrence of this condition may expose the Municipality to the assessment of interest cost relating to the excess cash on hand which would be paid from local funds.</p>	<p><u>\$ -0-</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<u>Recommendation</u>	
	The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt, or within three (3) business days.	
SBGP CFDA No. 14.228	Condition 07-2 The Municipality does not have adequate controls over property and equipment acquired with federal funds.	\$ <u>-0-</u>
	<u>Criteria</u>	
	As stated in 24CFR 85.32(b) grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations and unobligated balances. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p><u>Cause</u></p> <p>The Municipality has inadequate internal control procedures to prepare adjustments for recording transactions in the fixed assets subsidiary ledger.</p> <p><u>Effect</u></p> <p>The continuous occurrence of this situation may result in the misappropriation of assets acquired with federal funds. In addition, sanctions could be imposed by the federal awarding agency.</p> <p><u>Recommendation</u></p> <p>The Property Division must require each office, department and federal program that acquires property and equipment to submit a report including a full description of the asset, location, use responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other than the users, and through public announcement or bids.</p> <p>In addition, the Finance Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with the recorded in the control account. In addition, the subsidiary ledger should</p>	

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal offices.	
SBGP CFDA No. 14.228	<p>Condition 07-3</p> <p>The Municipality does not have effective internal controls over compliance with the requirement to ensure that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds are paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 276a to 276a-7). For the construction projects selected for testing, we noted that the contracts do not have the prevailing wage rate clause updated. In addition, none of the contracts selected have the certified payrolls.</p> <p><u>Criteria</u></p> <p>The Davis Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7).</p>	\$ <u>-0-</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
	<p data-bbox="529 575 623 606"><u>Cause</u></p> <p data-bbox="529 648 1208 789">The program's management failed to monitor the laborers employed by contractors to assure they are paid the prevailing wage rates and includes the certified payrolls.</p> <p data-bbox="529 831 613 863"><u>Effect</u></p> <p data-bbox="529 905 1208 1045">The continued failure to implement internal controls and ensure compliance with the above requirement may expose the Municipality to cost disallowances.</p> <p data-bbox="529 1087 776 1119"><u>Recommendation</u></p> <p data-bbox="529 1161 1208 1302">The Municipality should require to the construction contractors to make interviews to laborers to assure that wages paid are not less than those established by the DOL.</p>	

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken, except for certain conditions that still exist and require further action. These are included in the accompanying Schedule of Prior Year Audits Findings and Questioned Costs.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CEIBA
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Status</u>
SBGP CFDA No. 14.228	Condition 05-1 The program did not comply with the procedures require for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees.	Condition still prevails.
SBGP CFDA No. 14.228	Condition 05-2 The Municipality does not have adequate controls over property and equipment acquired with federal funds.	Condition still prevails.
SBGP CFDA No. 14.228	Condition 05-3 The program's management failed to monitor the laborers employed by contractors to assure they are paid the prevailing wage rates.	Condition still prevails.
SBGP CFDA No. 14.228	Condition 06-1 The program did not comply with the procedures require for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees.	Condition still prevails.
SBGP CFDA No. 14.228	Condition 06-2 The Municipality does not have adequate controls over property and equipment acquired with federal funds.	Condition still prevails.
SBGP CFDA No. 14.228	Condition 06-3 The program's management failed to monitor the laborers employed by contractors to assure they are paid the prevailing wage rates.	Condition still prevails.

EXHIBIT I

CORRECTIVE ACTION PLAN

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

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



Gobierno Municipal de Ceiba
Gilberto Camacho Pantoja
Alcalde

CORRECTIVE ACTION PLAN

November 12, 2007

Cognizant or Oversight Agency for Audit:

Municipality of Ceiba respectfully submits the following corrective action plan for the year ended June 30, 2007

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

Audit period: Fiscal year ended June 30, 2007

The findings from the June 30, 2007 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding 07-1: SBGP- CFDA 14.228

Reportable Condition: See Condition 07-1

Recommendation

The Municipality should modify the cash forecasting process by establishing a system to forecast the cash needs for the next five days, as established by federal regulations. Federal funds should only be requested when they are going to be disbursed immediately after receipt or within three (3) business days.

Box 224
Ceiba, Puerto Rico 00735

Tel. 787-885-2180
Fax 787-885-5137

www.ceiba-pr.com

Action Taken

The Municipality will establish procedures to coordinate efficiently the request of funds and disbursements within the maximum period established. Also, the documentation will be updated to avoid the delay in disbursements after received the funds.

Finding 07-2: SBGP- CFDA 14.228

Reportable Condition: See Condition 07-2

Recommendation

The Property Division must require each office, department and federal program that acquires property and equipment to submit a report including a full description of the asset, location, use responsible personnel, cost and any other pertinent data. This information should be reconciled with the monthly disbursements made against the budgetary accounts used for property acquisitions. Sales or other dispositions must also be made only upon approval of the Property Division Director and the Finance Director, and should be carried out by persons other than the users, and through public announcement or bids.

In addition, the Finance Department should establish a property control account to provide for the reconciliation of property recorded in the subsidiary ledger with the recorded in the control account. In addition, the subsidiary ledger should be periodically reconciled with the property subsidiary ledgers maintained by the Municipality's several individual federal offices.

Action Taken

The Federal Program Office will prepare a report including a full description of all the property that corresponds to the federal program, according to the subsidiary ledger of the Finance Department.

Finding 07-3: SBGP- CFDA 14.228

Reportable Condition: See Condition 07-3

Recommendation

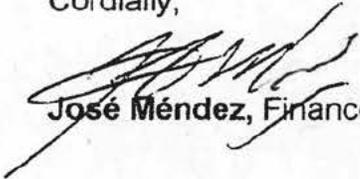
The Municipality should require to the construction contractors to make interviews to laborers to assure that wages paid are not less than those established by the DOL.

Action Taken

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

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call Mr. José Méndez at (787) 885-2180.

Cordially,


José Méndez, Finance Director

08 JAN 22 PM 3:10

EMERSON CONSULTING
INTERVENCIÓN