

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

MUNICIPIO DE CIDRA
AUDITORIA 2003-2004
30 DE JUNIO DE 2004

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2004

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2004**

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2004

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López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

• American Institute of
Certified Public Accountants

• Puerto Rico Society of
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of Cidra
Cidra, 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 Cidra, Puerto Rico**, as of and for the year ended June 30, 2004, 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinions.

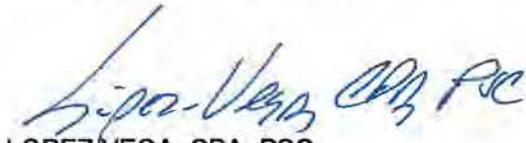
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cidra, Puerto Rico**, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 11 and the Budgetary Comparison Schedule-General Fund on page 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries 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.

INDEPENDENT AUDITORS' REPORT (Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2004 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 20, 2004

Stamp No. 2019433 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2004

Management's Discussion and Analysis

As management of the Municipality of Cidra, we offer readers of the Municipality's basic financial statements this narrative overview and analysis of the financial activities of the Municipality as of and for the fiscal year ended June 30, 2004. This Management's Discussion and Analysis (MD&A) include comparative data, and it has been designed accordingly 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 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 increased by \$ 2,004,977.
- In the fund financial statements, the governmental activities revenue increased \$ 682,570 (or 3%) while governmental activities expenditures decrease \$ 196,321 (or 1%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of \$ 346,937.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$ 242,221.
- The Municipality issued bonds amounting to \$ 725,000 to finance acquisition of equipment.
- The Municipality issued a note payable amounting to \$5,100,000 to fund a construction project.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 Asset 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Fund Financial Statements (Continued)

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, 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 demonstrated 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 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 combined net assets (excess of assets over liabilities) totaled \$ 28,584,750 at the end of 2004, compared to \$ 26,579,773 at the end of the previous year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

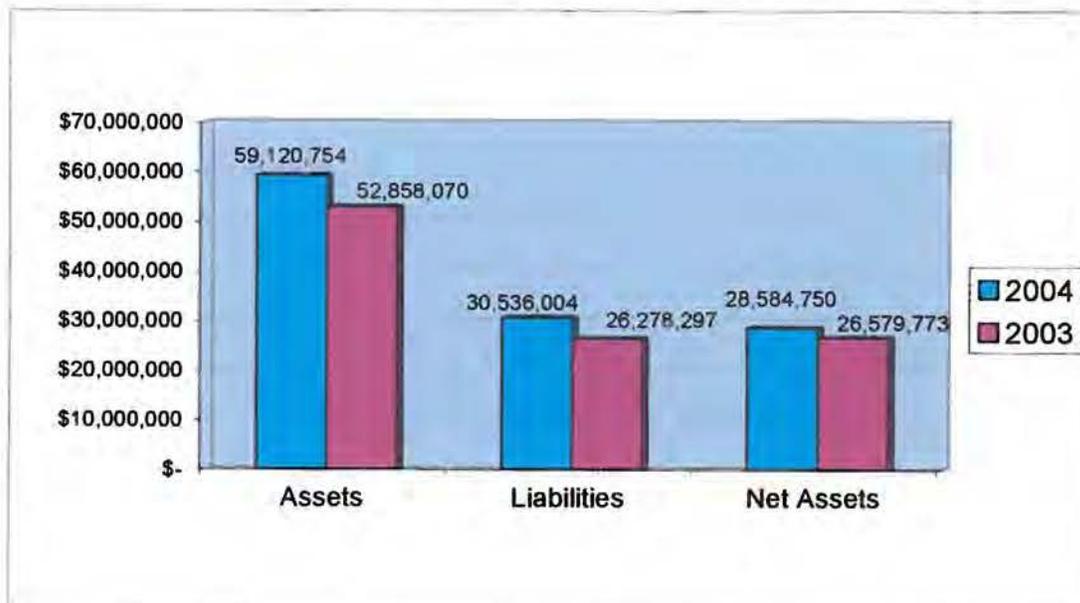
YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets (Continued)

Condensed Statement of Net Assets

| | 2004 | 2003 | Change | % |
|--|---------------------|---------------------|--------------------|--------------|
| Current assets | \$22,994,911 | \$19,323,908 | \$3,671,003 | 19% |
| Capital assets | 19,623,938 | 17,711,534 | 1,912,404 | 11% |
| Other assets | 16,501,905 | 15,822,628 | 679,277 | 4% |
| Total assets | <u>59,120,754</u> | <u>52,858,070</u> | <u>6,262,684</u> | <u>12%</u> |
| Current liabilities | 9,939,743 | 9,636,778 | 302,965 | 3% |
| Noncurrent liabilities | <u>20,596,261</u> | <u>16,641,519</u> | <u>3,954,742</u> | <u>24%</u> |
| Total liabilities | <u>30,536,004</u> | <u>26,278,297</u> | <u>4,257,707</u> | <u>16%</u> |
| Invested in capital assets, net of related debt | 24,365,843 | 21,539,162 | 2,826,681 | 13% |
| Restricted | 7,802,938 | 9,187,963 | (1,385,025) | (15%) |
| Unrestricted | <u>(3,584,031)</u> | <u>(4,147,352)</u> | <u>563,321</u> | <u>(14%)</u> |
| Total net assets | <u>\$28,584,750</u> | <u>\$26,579,773</u> | <u>\$2,004,977</u> | <u>8%</u> |



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Changes in Net Assets

The Municipality's net assets increase by \$ 2,004,977. Approximately 59 percent of the Municipality's total revenue came from taxes, while 39 percent resulted from grants and contributions, including federal aid. Charges for Services provided 2 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for health and welfare services, general government, public works, and public safety. As follow, is presented a comparative analysis of governmental-wide data. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Changes in Net Assets (Continued)

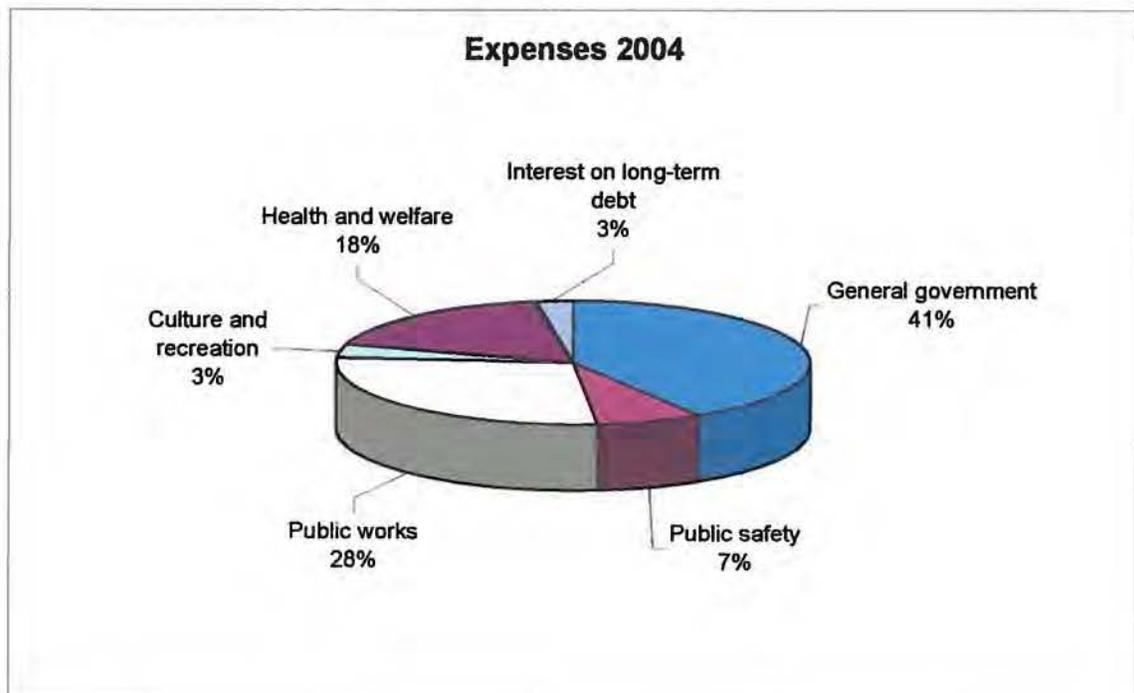
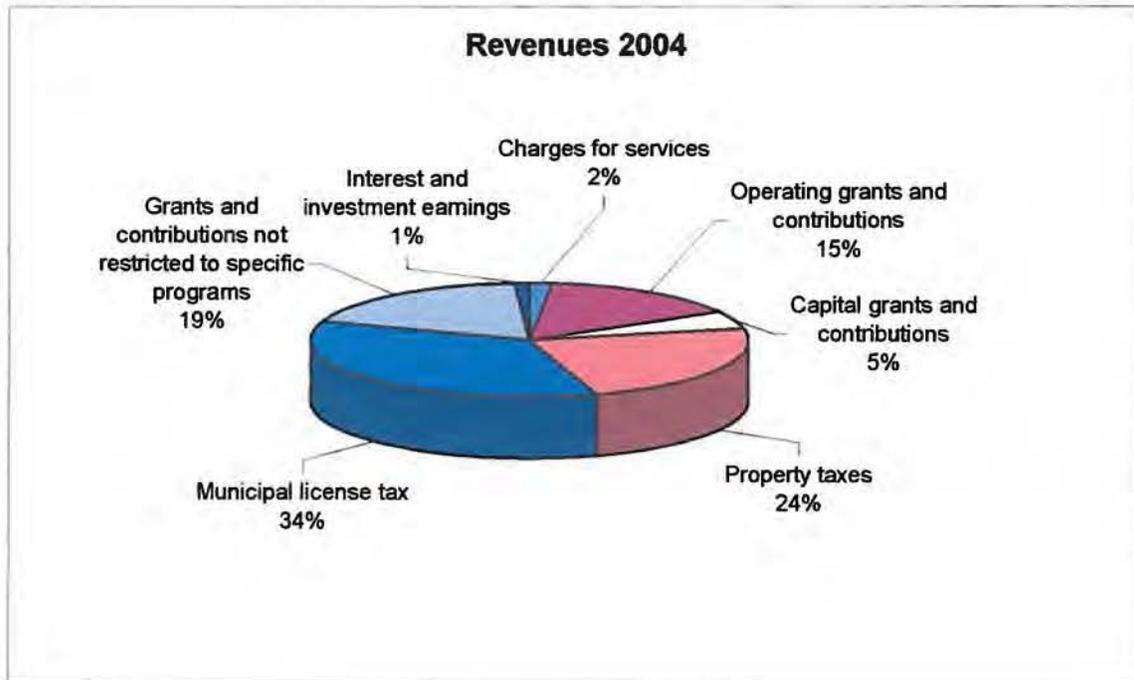
| Condensed Statement of Activities | 2004 | 2003 | Change | % |
|---|---------------------|---------------------|--------------------|--------------|
| Program revenues: | | | | |
| Charges for services | \$417,971 | \$366,397 | \$51,574 | 14% |
| Operating grants and contributions | 3,736,604 | 3,932,255 | (195,651) | (5%) |
| Capital grants and contributions | 1,176,073 | 4,598,301 | (3,422,228) | (74%) |
| General revenues: | | | | |
| Property taxes | 5,812,320 | 5,134,675 | 677,645 | 13% |
| Municipal license tax | 8,673,384 | 9,156,730 | (483,346) | (5%) |
| Grants and contributions not restricted to specific programs | 4,661,011 | 3,202,253 | 1,458,758 | 46% |
| Interest and investment earnings | 249,719 | 428,414 | (178,695) | (42%) |
| Miscellaneous | 46 | 696,760 | (696,714) | (100%) |
| Total revenues | 24,727,128 | 27,515,785 | (2,788,657) | (10%) |
| Expenses: | | | | |
| General government | 9,344,104 | 9,222,957 | 121,147 | 1% |
| Public safety | 1,657,357 | 1,724,886 | (67,529) | (4%) |
| Public works | 6,299,800 | 5,194,724 | 1,105,076 | 21% |
| Culture and recreation | 787,299 | 890,728 | (103,429) | (12%) |
| Health and welfare | 3,987,507 | 3,638,461 | 349,046 | 10% |
| Economic development | 55,926 | 301,307 | (245,381) | (81%) |
| Other | 10,934 | 339,218 | (328,284) | (97%) |
| Interest on long-term debt | 579,224 | 636,756 | (57,532) | (9%) |
| Total expenses | 22,722,151 | 21,949,037 | 773,114 | 4% |
| Change in net assets | 2,004,977 | 5,566,748 | (3,561,771) | (64%) |
| Net assets, beginning of year | 26,579,773 | 21,013,025 | 5,566,748 | 26% |
| Net assets, end of year | \$28,584,750 | \$26,579,773 | \$2,004,977 | 8% |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Changes in Net Assets (Continued)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

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 spend able 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 \$13,055,168, an increase of \$3,368,038 in comparison with the prior year. There are reservations of fund balance amounting to \$13,041,865. This is the fund balance that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal year (\$701,783), 2) to pay debt service (\$ 1,445,207), 3) to pay for capital projects (\$9,865,402) and 4) for other purposes (\$ 1,029,473).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2004, the general fund has a fund balance of \$ 152,230.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2004, amounts to \$ 54,839,057, net of accumulated depreciation of \$ 18,713,214, leaving a net book value of \$ 36,125,843. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED)

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 increase in the Municipality's investment in capital assets for the current fiscal year was about 8% in terms of net book value. Depreciation charges for the year totaled \$ 1,486,400.

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, 2004, the Municipality has \$9,974,127 of unexpended proceeds mainly 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. See "Limitations on Ability of Municipalities to Issue General Obligation Debt-The Municipal Bonds" for a general description of such limitations.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED)

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 2004-2005 fiscal years.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, 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.

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Net Assets
June 30, 2004

| | Governmental Activities |
|--|------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 15,483,182 |
| Cash with fiscal agent | 7,137,672 |
| Accounts receivable: | |
| Municipal license tax | 5,757 |
| Intergovernmental | 307,116 |
| Other | 61,184 |
| Capital assets | |
| Land, improvements, and construction in progress | 19,623,938 |
| Other capital assets, net of depreciation | 16,501,905 |
| Total capital assets | <u>36,125,843</u> |
| Total assets | <u>59,120,754</u> |
| Liabilities | |
| Accounts payable and accrued liabilities | 1,018,040 |
| Due to other governmental entities | 89,322 |
| Deferred revenues: | |
| Municipal license tax | 8,642,364 |
| Federal grant revenues | 190,017 |
| Noncurrent liabilities: | |
| Due within one year | 1,204,961 |
| Due in more than one year | <u>19,391,300</u> |
| Total liabilities | <u>30,536,004</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 24,365,843 |
| Restricted for: | |
| Capital projects | 4,874,127 |
| Debt service | 1,445,207 |
| Federal and state grant funds | 1,483,604 |
| Unrestricted (deficit) | <u>(3,584,031)</u> |
| Total net assets | <u>\$ 28,584,750</u> |

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Activities
For the Year Ended June 30, 2004

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and |
|--------------------------------------|----------------------|-------------------|---------------------|---------------------|---------------------------|
| | | Charges for | Operating | Capital | Changes in Net Assets |
| | | Services | Grants and | Grants and | Governmental |
| | | | Contributions | Contributions | Activities |
| General government | \$ 9,344,104 | \$ 59,015 | \$ 426,221 | \$ - | \$ (8,858,868) |
| Public safety | 1,657,357 | 10,835 | 60,338 | | (1,586,184) |
| Public works | 6,299,800 | | 1,701,371 | 1,176,073 | (3,422,356) |
| Health and welfare | 3,987,507 | 331,547 | 1,432,829 | | (2,223,131) |
| Culture and recreation | 787,299 | 16,574 | 115,845 | | (654,880) |
| Economic development | 55,926 | | | | (55,926) |
| Interest on long-term debt | 579,224 | | | | (579,224) |
| Other | 10,934 | | | | (10,934) |
| Total governmental activities | \$ 22,722,151 | \$ 417,971 | \$ 3,736,604 | \$ 1,176,073 | \$ (17,391,503) |

General revenues:

| | |
|--|----------------------|
| Property taxes | 5,812,320 |
| Municipal license tax | 8,673,384 |
| Grants and contributions not restricted to specific programs | 4,661,011 |
| Interest and investment earnings | 249,719 |
| Miscellaneous | 46 |
| Total general revenues | 19,396,480 |
| Change in net assets | 2,004,977 |
| Net assets - beginning | 26,579,773 |
| Net assets - ending | \$ 28,584,750 |

Commonwealth of Puerto Rico
Municipality of Cidra
Balance Sheet
Governmental Funds
June 30, 2004

| | General Fund (01) | Special Revenue Fund (02) State & Federal | Capital Projects Fund (20 & 21) State & Federal | Other Governmental Funds | Total Governmental Funds |
|--|-------------------------|--|--|--------------------------------|--------------------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 8,503,815 | \$ 1,529,165 | \$ 5,152,879 | \$ 297,323 | \$ 15,483,182 |
| Cash with fiscal agent | | 736,587 | 4,955,878 | 1,445,207 | 7,137,672 |
| Accounts receivable: | | | | | |
| Municipal license tax | 5,757 | | | | 5,757 |
| Intergovernmental | 126,822 | 61,937 | | 118,357 | 307,116 |
| Other | 61,184 | | | | 61,184 |
| Due from other funds | 953,977 | | | 106,601 | 1,060,578 |
| Total assets | \$ 9,651,555 | \$ 2,327,689 | \$ 10,108,757 | \$ 1,967,488 | \$ 24,055,489 |
| Liabilities and Fund Balances | | | | | |
| Liabilities : | | | | | |
| Accounts payable and accrued liabilities | \$ 767,639 | \$ 46,556 | \$ 33,630 | \$ 170,215 | \$ 1,018,040 |
| Due to other governmental entities | 89,322 | | | | 89,322 |
| Due to other funds | | 774,553 | 101,000 | 185,025 | 1,060,578 |
| Deferred revenues: | | | | | |
| Municipal license tax | 8,642,364 | | | | 8,642,364 |
| Federal grant revenues | | 25,998 | | 164,019 | 190,017 |
| Total liabilities | 9,499,325 | 847,107 | 134,630 | 519,259 | 11,000,321 |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 138,927 | 451,109 | 108,725 | 3,022 | 701,783 |
| Capital projects | | | 9,865,402 | | 9,865,402 |
| Other purposes | | 1,029,473 | | | 1,029,473 |
| Reserved reported in nonmajor funds: | | | | | |
| Debt service fund | | | | 1,445,207 | 1,445,207 |
| Unreserved: | | | | | |
| Undesigned | 13,303 | | | | 13,303 |
| Total fund balances | 152,230 | 1,480,582 | 9,974,127 | 1,448,229 | 13,055,168 |
| Total liabilities and fund balances | \$ 9,651,555 | \$ 2,327,689 | \$ 10,108,757 | \$ 1,967,488 | |

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

| | |
|--|----------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds | 36,125,843 |
| Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds | (20,596,261) |
| Net assets of governmental activities | \$ 28,584,750 |

The notes to the financial statements are an integral part of this statement.

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Revenues, Expenditures and Changes in
Governmental Funds
For the Year Ended June 30, 2004

| | General Fund (01) | Special Revenue Fund (02) State & Federal | Capi Proje Fund (2) State & F | | |
|--|----------------------|--|--|---------------------|----------------------|
| Revenues | | | | | |
| Property taxes | \$ 4,630,376 | \$ - | \$ | | |
| Municipal license taxes | 8,673,384 | | | | |
| Licenses, permits and other local taxes | 556,476 | | | | |
| Intergovernmental | 3,206,581 | 878,504 | 150,000 | | 4,235,085 |
| Rent of property | 16,574 | | | | 16,574 |
| Fines and forfeitures | 10,835 | | | | 10,835 |
| Interest | 249,719 | | | | 249,719 |
| Federal grants | | 68,088 | | 2,641,272 | 2,709,360 |
| Miscellaneous | 1,181,908 | 148,740 | 46 | 106,608 | 1,437,302 |
| Total revenues | \$ 18,525,853 | \$ 1,095,332 | \$ 150,046 | \$ 3,929,824 | \$ 23,701,055 |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 8,935,461 | 972,087 | 408,995 | 656,161 | 10,972,704 |
| Public safety | 1,617,664 | 613 | | | 1,618,277 |
| Public works | 4,639,908 | 1,272,902 | 286,487 | 1,020,557 | 7,219,854 |
| Health and welfare | 2,638,813 | 185,992 | | 1,083,414 | 3,908,219 |
| Culture and recreation | 643,561 | | | | 643,561 |
| Economic development | 245,258 | | | | 245,258 |
| Other | | 10,120 | | 800 | 10,920 |
| Debt service: | | | | | |
| Principal | 45,000 | | | 915,000 | 960,000 |
| Interest | 95,750 | | | 483,474 | 579,224 |
| Total expenditures | 18,861,415 | 2,441,714 | 695,482 | 4,159,406 | 26,158,017 |
| Excess (deficiency) of revenues over (under) expenditures | (335,562) | (1,346,382) | (545,436) | (229,582) | (2,456,962) |
| Other financing sources (uses) | | | | | |
| Transfers in | | | 71,307 | | 71,307 |
| Transfers out | (11,375) | (59,932) | | | (71,307) |
| Loan Proceeds | | | 5,100,000 | | 5,100,000 |
| Long-term debt issued | | 725,000 | | | 725,000 |
| Total other financing sources (uses) | (11,375) | 665,068 | 5,171,307 | - | 5,825,000 |
| Net change in fund balances | (346,937) | (681,314) | 4,625,871 | (229,582) | 3,368,038 |
| Fund balance, beginning | 499,167 | 2,161,896 | 5,348,256 | 1,677,811 | 9,687,130 |
| Fund balance, ending | \$ 152,230 | \$ 1,480,582 | \$ 9,974,127 | \$ 1,448,229 | \$ 13,055,168 |

Commonwealth of Puerto Rico
Municipality of Cidra
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004

| | | |
|---|-----------|------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 3,368,038 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. | | 3,069,213 |
| Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds | | (1,486,400) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds. | | 846,053 |
| Change in landfill accrual | | 47,000 |
| Some revenues reported in the Statement of Activities do not provide current financial resources in Governmental Funds. | | 1,026,073 |
| Loan Proceeds | | (5,100,000) |
| The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes current financial resources. This is the amount by which debt proceeds exceed debt service principal payments. | | 235,000 |
| | | <hr/> |
| Change in Net Assets of Governmental Activities | \$ | 2,004,977 |
| | | <hr/> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Cidra** (the Municipality) was founded on the year 1917. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen-member Municipal Legislature who are elected for four-year terms.

The Municipality provides public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services.

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

A. Component Units

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 are financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is 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 unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component unit's financial data in columns separate from the Municipality's balances and transactions.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follow:

1. Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the activities of the Municipality and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-typed activities, if any, which rely to a significant extent on fees and charges for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

B. Government-wide and fund financial statements

particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The Municipality reports the following major governmental funds:

General Fund- is the accounting entity in which all governmental activity, except that which is required to be accounted for in another fund, is accounted for. Its revenues consist mainly of taxes, licenses and permits, intergovernmental revenue, charges for services and other.

Special Revenue Fund - (02) - is the accounting entity in which revenues derived from federal and state grants, is accounted for. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

Capital Projects Fund - (20 & 21) Local, State and Federal Grants - is the accounting entity in which revenues derived from local funds, state and federal grants or other restricted revenue sources related to capital projects, is accounted for. The uses and limitations of each capital project fund are specified by Municipality ordinances or federal and state statutes.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule-general fund.

C. Financial reporting presentation

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

C. Financial reporting presentation

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

Special Revenue Funds- Special Revenue Funds are used to account for revenues derived from grants or other restricted revenue sources. The uses and limitations of each special revenue fund are specified by Municipality ordinances or federal and state statutes.

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

Capital Projects Funds- Capital Project Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

D. Measurement focus, basis of accounting and financial presentation

Except for budgetary purposes, the basis of accounting used by the Municipality conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

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.

The Municipality has elected not to apply all Statements and Interpretations issued by the Financial Accounting Standard Board after November 30, 1989, in accordance with GASB Statement No.20.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

D. Measurement focus, basis of accounting and financial presentation

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditure in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

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. All other revenue items are considered to be measurable and available only when the government receives cash.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, and contributions, and 3) capital grants and contributions, including special assessments, if any. 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, then unrestricted resources, as they are needed.

The preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

E. Assets, liabilities and net assets

- 1. Cash, cash equivalents, and cash with fiscal agent-** The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt services fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

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

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the general fund represent mostly contributions from the Puerto Rico Electric Power Authority, which contribute a specific percentage of their revenues as payment in lieu of taxes. Intergovernmental receivable in the special revenue fund represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs and the amount in the debt service fund represent the distribution of property tax collected by the Municipal Revenue Collection Center (CRIM), which is restricted for the debt service.

- 3. Inventories-** Inventories in the general fund is recorded as expenditure and, consequently, the inventory is not recorded in the statement of net assets.
- 4. Capital assets-** Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$25 and an estimated useful life in excess of one year. Such assets are

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

E. Assets, liabilities and net assets

reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Municipality, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

| Description | Useful Life | Capitalization threshold |
|---------------------------------|--------------|--------------------------|
| Buildings and site improvements | 40 years | \$ 1 |
| Infrastructure | 40 years | \$ 1 |
| Works of art | 10 years | \$ 1 |
| Vehicles | 5 years | \$ 1 |
| Furniture and fixtures | 5 years | \$ 25 |
| Machinery and equipment | 3 to 5 years | \$ 25 |

5. **Long-term obligations-** The liabilities reported in the government-wide financial statements include the general and special obligation bonds, bank and long-term notes, other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and landfill closure and post closure care costs.

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

6. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay it is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

E. Assets, liabilities and net assets

7. **Claims and judgments-** The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.
8. **Reservation of fund balance-** Reservations of fund balance in the fund financial statements, represent portions of fund balances that are legally segregated for specific future use or are not appropriated for expenditure. The municipality has the following reservations of fund balance:
 - a. *Capital Projects-* Represent the reservation of amounts to be used for future expenditures for capital projects under contracts and other commitments. These committed amounts generally will become liabilities in future periods as the projects are completed.
 - b. *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.
 - c. *Debt Service Fund-* Represents net assets available to finance future debt service payments.
 - d. *Other Purposes-* Represents net assets available for specific use and/or legally segregated for other specific future use.
9. **Interfund and intra-entity transactions-** The Municipality has the following types of transactions among funds:
 - a. *Operating Transfers-* Legally required transfers that are reported when incurred as "Operating transfer-in" by the recipient fund and as "Operating transfers-out" by the disbursing fund.
 - b. *Intra-Entity Transactions-* Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.
10. **Risk financing-** The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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

E. Assets, liabilities and net assets

gross property tax collections by the CRIM for the year ended June 30, 2004 amounted to approximately \$ 304,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$375,000 for workers compensation insurance covering all municipal employees.

11. Reconciliation of Government-Wide and Fund Financial Statements-The governmental fund balance sheet includes reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. The two elements of that reconciliation explains that "long term liabilities, including compensated absences, bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds.", and that 'capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The detail of this reconciliation is as follows:

| | |
|--|----------------------|
| Capital assets, net of depreciation | \$ 36,125,843 |
| Bonds Payable | (11,760,000) |
| Note Payable | (5,100,000) |
| Accrued compensated absences | (2,736,261) |
| Landfill closure and post closure care costs | <u>(1,000,000)</u> |
| Net adjustment to reduce fund balance total governmental funds to arrive at net assets-governmental activities | <u>\$ 15,529,582</u> |

2. DEPOSITS

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 \$ 8,500,000 in the general fund were fully collateralized at June 30, 2004. In the other governmental funds there were deposits with commercial banks of approximately \$300,000 that were fully collateralized, \$1,529,165 in the special revenue fund (02) and \$5,152,879 in the capital projects fund (20 & 21).

The deposits at GDB of approximately \$ 5,700,000 those are restricted principally for capital projects, and the \$ 1,445,207 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

3. RECEIVABLES

- a. **Municipal License Tax**- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$ 1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2004, the tax rates were as follows:

- Financial business- 1.50% of gross revenues
- Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2004, net of allowance for uncollectibles.

Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as deferred revenues.

- b. **Intergovernmental Receivables**- Intergovernmental receivables in the general fund principally consist of the amounts due from the Municipal Revenue Collection Center.

Intergovernmental receivable in the Special Revenue Fund (02) and the Other Governmental Funds represents mainly expenditures incurred not yet reimbursed by the Federal government. Following is a detail of the intergovernmental receivable:

| Program Description | Amount |
|------------------------------------|-------------------|
| Community Development Block Grants | \$ 49,257 |
| Even Start | 30,543 |
| Emergency Shelter Grants Program | 25,761 |
| Others | 74,733 |
| Total | <u>\$ 180,294</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

3. RECEIVABLES (CONTINUED):

c. Other- Other accounts receivable as of June 30, 2004 are as follows:

| | <u>Governmental Type Funds</u> | | |
|-------------------------|--------------------------------|---|------------------|
| | <u>General Fund</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
| Medical Plans | \$ 32,585 | \$ - | \$ 32,585 |
| Other | <u>28,599</u> | <u>-</u> | <u>28,599</u> |
| Total other receivables | <u>\$ 61,184</u> | <u>\$ -</u> | <u>\$ 61,184</u> |

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2004 are summarized as follows:

a. Due from/to other fund:

| <u>Fund</u> | <u>Receivable Fund</u> | <u>Payable Fund</u> |
|----------------------------------|------------------------|---------------------|
| General Fund | \$ 953,977 | \$ - |
| Other Governmental Fund | 106,601 | 185,025 |
| Special Revenue Fund (02) | - | 774,553 |
| Capital Projects Funds (20 & 21) | <u>-</u> | <u>101,000</u> |
| Total | <u>\$ 1,060,578</u> | <u>\$ 1,060,578</u> |

b. Transfer in/out to other fund

Following is a summary of interfund transfers for the year:

| <u>Transfer out</u> | <u>Transfer in</u> | <u>Purpose</u> | <u>Amount</u> |
|---------------------------|---------------------------------|---------------------------------------|------------------|
| General Fund | Special Revenue Fund (02) | Transfer of funds for Capital Outlays | \$ 11,375 |
| Special Revenue Fund (02) | Capital Projects Fund (20 & 21) | Transfer of funds for Capital Outlays | <u>59,932</u> |
| Total | | | <u>\$ 71,307</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2004, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

| Governmental Activities: | Balance July 1, 2003 | Additions | Retirements | Balance June 30, 2004 |
|--|-------------------------|----------------|-------------|--------------------------|
| Capital asset, not being depreciated: | | | | |
| Construction in progress | | \$ 432,271 | | \$ 432,271 |
| Land | \$17,711,534 | 1,480,133 | \$ - | 19,191,667 |
| Total capital assets not being depreciated | \$17,711,534 | 1,912,404 | - | \$19,623,938 |
| Capital assets, being depreciated: | | | | |
| Buildings and building improvements | \$11,446,061 | 66,440 | (3,820) | \$11,508,681 |
| Infrastructure | 13,272,016 | 1,226,673 | - | 14,498,689 |
| Equipment | 3,808,602 | 485,579 | (124,816) | 4,169,365 |
| Works of art | 185 | 0 | - | 185 |
| Vehicles | 4,811,150 | 404,190 | (177,141) | 5,038,199 |
| Total capital assets being depreciated | 33,338,014 | \$ 2,182,882 | (305,777) | 35,215,119 |
| Less accumulated depreciation for: | | | | |
| Buildings and building improvements | (\$ 4,388,204) | (\$ 286,623) | \$ 1,043 | (\$ 4,673,784) |
| Infrastructure | (6,834,511) | (323,673) | - | (7,158,184) |
| Equipment | (2,828,111) | (402,751) | 117,288 | (3,113,574) |
| Works of art | (156) | (19) | - | (175) |
| Vehicles | (3,464,404) | (473,334) | 170,241 | (3,767,497) |
| Total accumulated depreciation | (\$17,515,386) | (\$ 1,486,400) | \$ 288,572 | (\$18,713,214) |
| Total capital assets being depreciated, net | 15,822,628 | 696,482 | (17,205) | 16,501,905 |
| Governmental activities capital assets, net | \$ 33,534,162 | \$ 2,608,886 | \$ (17,205) | \$ 36,125,843 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS (CONTINUED):

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

Governmental activities:

| | |
|--|---------------------|
| General government | \$ 229,941 |
| Public safety | 83,161 |
| Public works | 568,738 |
| Culture and recreation | 167,407 |
| Education | 14 |
| Health and welfare | 81,051 |
| Economic development | <u>356,088</u> |
| Total depreciation expense-governmental activities | <u>\$ 1,486,400</u> |

6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the CRIM, a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. The CRIM issued the final liquidation noting that the collections exceeded advances by \$114,711. Such amount was included as intergovernmental receivables in the General Fund.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

6. PROPERTY TAXES (CONTINUED):

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$ 3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual tax rate is 8.08% for real property and 6.08% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.25% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

7. DUE TO OTHER GOVERNMENTAL ENTITIES

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

| | |
|--|------------------|
| General Services Administration | \$ 2,243 |
| State Insurance Fund | 24,025 |
| Puerto Rico Telephone Company | 60,776 |
| Puerto Rico Aqueduct and Sewer Authority | 1,641 |
| Other | <u>637</u> |
| Total | <u>\$ 89,322</u> |

8. DEFERRED REVENUES

- a. **Municipal License Tax-** The deferred revenues of approximately \$8,642,000 in the general fund relates to municipal license tax collected in fiscal year 2003-04 that will be earned in fiscal year 2004-05.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

8. DEFERRED REVENUES (CONTINUED):

b. Federal Government- The deferred revenues presented in the Special Revenue Fund (02) other governmental funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Deferred revenues from the federal government are as follows:

Program Description

| | |
|-----------------------------------|--------------------------|
| Section 8 Housing Choice Vouchers | \$ 164,019 |
| Other | <u>25,998</u> |
| Total | <u>\$ 190,017</u> |

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, was as follows:

| | Beginning Balance | Borrowings or Additions | Payments or Deductions | Ending Balance | Due Within One Year |
|-------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|---------------------------|
| Bonds Payable | \$11,995,000 | \$725,000 | \$(960,000) | \$11,760,000 | \$810,000 |
| Notes Payable | | 5,100,000 | | 5,100,000 | 50,000 |
| Advances from CRIM | 798,910 | | (798,910) | - | - |
| Compensated Absences | 2,800,609 | | (64,348) | 2,736,261 | 297,961 |
| Landfill obligation | 1,047,000 | | (47,000) | 1,000,000 | 47,000 |
| Total | <u>\$16,641,519</u> | <u>\$5,825,000</u> | <u>\$(1,870,258)</u> | <u>\$20,596,261</u> | <u>\$1,204,961</u> |

a. Legal debt margin- The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment if property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues if the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

b. Bonds payable- The Municipality issues general and special obligation bonds to provide funds for the acquisition of equipment. During the current year, the Municipality issued bonds for approximately \$725,000. Bonds payable outstanding at June 30, 2004 are as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED):

| Type of bonds | Maturity Date | Original Amount | Range of Interest rates | Balance at June 30, 2004 |
|--------------------------------|---------------|-----------------|-------------------------|--------------------------|
| 1992 Series | 7-1-06 | \$ 1,530,000 | 3.2% to 6.3% | \$ 490,000 |
| 1996 Series | 7-1-21 | 605,000 | 4.8% to 6.7% | 535,000 |
| 1997 Series | 7-1-06 | 1,435,000 | 4.8% to 6.7% | 555,000 |
| 2000 Series | 7-1-24 | 260,000 | 2.7% to 7.8% | 240,000 |
| 2000 Series | 7-1-24 | 710,000 | 2.7% to 7.8% | 670,000 |
| 2000 Series | 7-1-25 | 555,000 | 2.7% to 7.8% | 250,000 |
| 2000 Series | 7-1-25 | 6,440,000 | 2.7% to 7.8% | 6,150,000 |
| 2001 Series | 7-1-06 | 430,000 | 5.0% to 8.0% | 275,000 |
| 2002 Series | 7-1-06 | 1,335,000 | 4.8% to 6.7% | 1,300,000 |
| 2002 Series | 7-1-26 | 580,000 | 5.0% to 6.5% | 570,000 |
| 2003 Series | 7-1-11 | 725,000 | 5.0% to 6.0% | <u>725,000</u> |
| Total general obligation bonds | | | | <u>\$ 11,760,000</u> |

These bonds are payable from the ad valorem property tax of 1.25% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

Annual debt service requirements to maturity for bonds payable are as follows:

| Year Ending June 30, | Principal | Interest |
|----------------------|----------------------|---------------------|
| 2005 | \$ 810,000 | \$ 598,539 |
| 2006 | 870,000 | 566,423 |
| 2007 | 805,000 | 525,465 |
| 2008 | 355,000 | 496,011 |
| 2009 | 375,000 | 477,653 |
| 2010-2014 | 1,915,000 | 2,085,811 |
| 2015-2019 | 2,420,000 | 1,538,765 |
| 2020-2024 | 2,960,000 | 766,649 |
| 2025-2029 | <u>1,250,000</u> | <u>69,690</u> |
| Total | <u>\$ 11,760,000</u> | <u>\$ 7,125,006</u> |

- c. **Compensated absences-** The government-wide statement of net assets includes approximately \$ 2,740,000 of accrued vacation and sick leave benefits, representing the Municipality's commitment to fund such costs from future operations.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED):

- d. Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site since 1994, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized \$ 1,000,000 as the Municipality's estimated current cost for landfill post-closure costs as of June 30, 2004. The annual estimate of post closure costs has been assessed approximately to be \$ 47,000 for a period of approximately 50 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of post-closure costs are reported in the government-wide statement of net assets.
- e. Note payable-** The note payable transaction for the year ended June 30, 2004, was as follows:

| | | |
|--------------------------|----|---------------------|
| Balance at July 1, 2003 | \$ | - |
| Loan Proceeds | | 5,100,000 |
| Payments | | - |
| Balance at June 30, 2004 | | <u>\$ 5,100,000</u> |

Note payable at June 30, 2004 is as follows:

| Description | Maturity Date | Original Amount | Range of Interest rates | Balance June 30, 2004 |
|------------------|---------------|-----------------|-------------------------|-----------------------|
| Section 108 Loan | 8-1-22 | \$ 5,100,000 | Variable | <u>\$ 5,100,000</u> |
| Note Payable | | | | <u>\$ 5,100,000</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

9. LONG-TERM LIABILITIES (CONTINUED):

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2004, are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|---------------------|--------------------|
| 2005 | - | 158,026 |
| 2006 | 50,000 | 269,040 |
| 2007 | 100,000 | 266,917 |
| 2008 | 125,000 | 263,110 |
| 2009 | 150,000 | 257,848 |
| 2010-2014 | 1,125,000 | 1,155,699 |
| 2015-2019 | 1,750,000 | 783,211 |
| 2020-2024 | <u>1,800,000</u> | <u>214,404</u> |
| Total | <u>\$ 5,100,000</u> | <u>\$3,368,255</u> |

10. PENSION PLAN

The Employee's Retirement System of the Commonwealth and its Instrumentalities (the Retirement System) is a cost-sharing multiple defined benefit pension plans sponsored by, and reported as a component unit of the Commonwealth of Puerto Rico. All regular employees of the Municipality under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

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

Members who have attained 55 years of age and have completed at least 25 years of creditable service or members who have attained 58 years of age and have completed ten years of creditable service are entitle to an annual benefit payable monthly for life.

The amount of the annuity shall be one and one-half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$200 per month.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

10. PENSION PLAN (CONTINUED):

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Commonwealth legislation requires employees to contribute 5.775% for the first \$550 of their monthly gross salary and 8.275% for the excess over \$550 of monthly gross salary. The Municipality is required by the same statute to contribute 9.275% of the participant's gross salary. Total Municipality contributions to the above-mentioned plans during the year ended June 30, 2004 recorded as pension expenditures were approximately \$ 547,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2004.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program (System 2000). Employee's participation 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 1, 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. The Commonwealth of Puerto Rico will not guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% to the employee's salary up 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 a 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.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2004, a copy of which can be obtained from the Retirement System, Minillas Station, P.O. Box 42004, San Juan, PR 00940

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

11. COMMITMENTS AND CONTINGENCIES

A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2004, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

B. Claims and lawsuits:

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2004

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts (Budgetary Basis) (See Note 1)</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|--------------------------|--------------------------|--|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Property taxes | \$3,692,247 | \$ 4,437,283 | \$ 4,630,376 | \$ 193,093 |
| Municipal license tax | 8,500,000 | 8,676,514 | 8,673,384 | (3,130) |
| Licenses, permits and other local taxes | 433,000 | 534,096 | 556,476 | 22,380 |
| Intergovernmental | 3,360,284 | 3,360,284 | 3,206,581 | (153,703) |
| Rent of property | 6,000 | 17,914 | 16,574 | (1,340) |
| Fines and forfeitures | 4,000 | 10,605 | 10,835 | 230 |
| Interest | 325,000 | 245,812 | 249,719 | 3,907 |
| Miscellaneous | 242,500 | 1,222,156 | 1,181,908 | (40,248) |
| Budgeted carryover | | <u>499,167</u> | <u>499,167</u> | |
| Total revenues and budget carryover | <u>16,563,031</u> | <u>19,003,831</u> | <u>19,025,020</u> | <u>21,189</u> |
| EXPENDITURES AND OTHER FINANCING USES: | | | | |
| Current: | | | | |
| General government | 6,729,948 | 9,219,654 | 8,850,616 | 369,038 |
| Public safety | 1,727,859 | 1,624,076 | 1,616,654 | 7,422 |
| Public works | 4,244,372 | 4,565,792 | 4,647,527 | (81,735) |
| Health and welfare | 2,697,787 | 2,540,392 | 2,639,085 | (98,693) |
| Culture and recreation | 777,851 | 666,774 | 642,909 | 23,865 |
| Economic development | 385,214 | 246,393 | 245,258 | 1,135 |
| Principal | | 45,000 | 45,000 | |
| Interest | | <u>95,750</u> | <u>95,750</u> | |
| Total expenditures and other financing uses | <u>16,563,031</u> | <u>19,003,831</u> | <u>18,782,799</u> | <u>221,032</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | | | <u>\$242,221</u> | <u>\$242,221</u> |
| Explanation of Differences: | | | | |
| Sources/inflows of resources: | | | | |
| Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule | | | | \$ 19,025,020 |
| Differences-budget to GAAP: | | | | |
| Budgeted carryover | | | | <u>(499,167)</u> |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances | | | | <u>\$ 18,525,853</u> |
| Uses/outflows of resources: | | | | |
| Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule | | | | \$ 18,782,799 |
| Differences-budget to GAAP: | | | | |
| Nonbudgeted expenditures | | | | 11,375 |
| Prior year encumbrances recorded as current year expenditures for GAAP basis | | | | 217,543 |
| Current year encumbrances recorded as expenditures for budgetary purposes | | | | <u>(138,927)</u> |
| Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances | | | | <u>\$ 18,872,790</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES OF BUDGETARY COMPARISON SCHEDULE- GENERAL FUND- (CONTINUED)

YEAR ENDED JUNE 30, 2004

1. 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 fund.

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 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.

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2004 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2004.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

| <u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|---|---------------------------------|
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | |
| Direct Programs: | | | |
| Section 8 Housing Choice Vouchers : | 14.871 | | \$ 1,098,266 |
| Community Development Block Grants- Entitlement Grants | 14.218 | B-00-MC-72-0021 B-01-MC-72-0021 B-02-MC-72-0021 | 1,539,504 |
| Pass-through Commonwealth of Puerto Rico Department of the Family: Emergency Shelter Grants Program | 14.231 | S-99-DC-72-0001 | <u>30,000</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>2,667,770</u> |
| U.S DEPARTMENT OF AGRICULTURE: | | | |
| Direct Programs: | | | |
| Rural Self-Help Housing Technical Assistance | 10.420 | | 8,370 |
| Rural Housing Site Loans and Self-Help Housing Land Development Loans | 10.411 | | <u>73,829</u> |
| Total U.S. Department of Agriculture | | | <u>82,199</u> |
| U.S DEPARTMENT OF JUSTICE: | | | |
| Universal Hiring Program | 16.710 | | <u>16,000</u> |
| Total U.S. Department of Justice | | | <u>16,000</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

| <u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|---|---------------------------------|
| U.S. DEPARTMENT OF TRANSPORTATION: | | | |
| Pass-through the Commonwealth of Puerto Rico Highway Authority Formula Transit: Formula Grants | 20.507 | | \$ 5,800 |
| Pass-through the Commonwealth of Puerto Rico Highway safety and Drunk Driving Prevention Incentive Grant | 20.601 | | <u>44,338</u> |
| Total U.S. Department of Transportation | | | <u>50,138</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | | |
| Pass-through the Commonwealth of Puerto Rico-Administration for Children and Families: Child Care and Development Block Grant | 93.575 | NOT AVAILABLE | <u>31,681</u> |
| Total U.S. Department of Health and Human Services | | | <u>31,681</u> |
| U.S. DEPARTMENT OF EDUCATION: | | | |
| Pass-through the Commonwealth of Puerto Rico-Office of Elementary and Secondary Education Even Start-State Educational Agencies | 84.213 | | <u>20,474</u> |
| Total U.S. Department of Education | | | <u>\$20,474</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 2,868,262</u> |

The accompanying notes are an integral part of this schedule

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

A. BASIS OF PRESENTATION:

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

B. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

| Description | Special Revenue (02) | Other Governmental Funds | Total |
|--|-------------------------|--------------------------------|--------------------|
| Per Schedule of Expenditures of Federal Awards | \$1,769,996 | \$1,098,266 | \$2,868,262 |
| Non federal programs Expenditures | 671,718 | 3,061,140 | 3,732,858 |
| Total expenditures in the basic financial statements | <u>\$2,441,714</u> | <u>\$4,159,406</u> | <u>\$6,601,120</u> |



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

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

We have audited the basic financial statements of the **Municipality of Cidra** as of and for the year ended June 30, 2004, and have issued our report thereon dated December 20, 2004, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Cidra's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting.

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

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters involving the internal control over financial reporting, which we have reported to management of the **Municipality of Cidra** in a separate letter dated December 20, 2004.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 20, 2004

Stamp No. 2019434 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.





López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

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

Compliance

We have audited the compliance of the **Municipality of Cidra** 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, 2004. The **Municipality of Cidra's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **Municipality of Cidra's** management. Our responsibility is to express an opinion on the **Municipality of Cidra's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **Municipality of Cidra's** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **Municipality of Cidra's** compliance with those requirements.

In our opinion, the **Municipality of Cidra** 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, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items **04-01** through **04-06**.

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

Internal Control Over Compliance

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

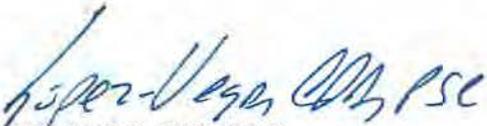
We noted certain matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that,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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees on the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. However, we believe that reportable condition described above is not a material weakness. We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Municipality of Cidra** in a separate letter dated March 3, 2005.



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

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 3, 2005

Stamp No. 2019435 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2004

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: **Unqualified**

Internal control over financial reporting:

Material weakness identified? Yes _____ No X

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

Noncompliance material to financial statements noted? Yes _____ No X

Federal awards

Internal Control over major programs:

Material weakness identified? Yes _____ No X

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

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

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

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|--|
| 14.218 | Community Development Block Grant – Entitlement Grants |
| 14.871 | Section 8 Housing Choice Voucher |
| Dollar threshold used to distinguish between Type A and Type B programs | \$ 300,000 |
| Auditee qualified as low-risk auditee? | Yes <u>X</u> No _____ |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|---|
| Finding Reference | 04-01 |
| Program | Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development |
| Requirement | Reporting |
| Statement of Condition | <p>During our audit of the Financial Reporting, we noted that the Municipality did not produce the reports generated by Integrated Disbursement and Information System (IDIS). The reports are the following:</p> <ul style="list-style-type: none">▪ C04PRO3 - Activity Summary Report▪ C04PR26 - CDBG Financial Summary Report |
| Criteria | OMB Common Rules, Subpart C, Section 85.20 (b) (1) state that the grantee must make accurate, current, and complete disclosure of the financial results of financially assisted activities in accordance with the financial reporting requirements of the grant. |
| Cause of Condition | The Program Staff does not have proper training to run reports from the Integrated Disbursement and Information System (IDIS). |
| Effect of Condition | Such condition will cause the Municipality's could not track compliance with certain earmarking requirements applicable to the Program like the requirement that 70 percent of the funds must be used over a period of up three years, as specified by the Municipality in its certification to benefiting low-and moderate- income benefits, the public services cap, and the planning and administration cap. |
| Recommendation | We recommend that Program Staff should obtain training for manage the program Integrated Disbursement and Information System (IDIS) from the HUD Caribbean Office, external consultants or in-house trainings using the IDIS Reference Manual, which includes explanations about how to runs reports and extracts data from IDIS |
| Questioned Costs | None |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

| | |
|---|--|
| Finding Reference | 04-01 (Continued) |
| Program | Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development |
| Management Response and Corrective Action Plan | HUD monitored CDBG program and IDIS training was given during the monitoring and more detail training will be scheduled in the near future. As a result of the monitoring the reports were produced prior to the March 31, 2005. |
| | Responsible Person: George Pereira Federal Programs Department Director |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|--|
| Finding Reference | 04-02 |
| Program | Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development |
| Requirement | Earmarking |
| Statement of Condition | The Municipality did not provide to us the C04PR03 and C04PR26 Reports generated by Integrated Disbursement and Information System (IDIS), and therefore, we were unable to determine compliance with the requirement that not less than 70 percent were used over a period of up to three years, as specified by the Municipality in its certification, for activities that benefit low- and moderate-income persons. Also, we were unable to determine compliance the planning and administration, and the public services cap. |
| Criteria | Code of Federal Regulations (CFR) 24, sections 570.200 and 570.208 states that the 70 percent of the funds must be used over a period of up three years, as specified by the grantee in its certification, for activities that benefit low-and moderate- income persons. Besides CFR 24, Sections 570.205 and 570.206 states that not more than 20 percent of the total grant, plus the 20 percentage of program income received during a program year, may be obligated during that year for activities that qualify as planning and administration. Also, CFR 24, Sections 570.201 states that the amount of CDBG funds obligated during the program year for public services must no exceed 15 percent of grant amount received for that year plus 15 percentage of the program income it received during the preceding program year. |
| Cause of Condition | The Program Staff does not have proper training on to run reports from the Integrated Disbursement and Information System (IDIS). |
| Effect of Condition | Such condition will cause the Municipality's could not track compliance with the earmarking requirements applicable to the Program. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

| | |
|---|--|
| Finding Reference | 04-02 (Continued) |
| Program | Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development |
| Recommendation | We recommend that Municipality should obtain training to the Program Staff who manages the program Integrated Disbursement and Information System (IDIS) from the HUD Caribbean Office, external consultants or in-house trainings using the IDIS Reference Manual, which includes explanations about how to runs reports and extracts data from IDIS. |
| Questioned Costs | None |
| Management Response and Corrective Action Plan | HUD monitored CDBG program and IDIS training was given during the monitoring and more detail training will be scheduled in the near future. As a result of the monitoring the reports were produced prior to the March 31, 2005. |
| | Responsible Person: George Pereira Federal Programs Department Director |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

| | |
|---|--|
| Finding Reference | 04-03 |
| Program | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development |
| Requirement | Cash Management |
| Statement of Condition | We realized Cash Management Test and after our procedures we found that the Program maintained an excessive average cash balance in books. |
| Criteria | OMB Common Rules, Subpart C, Section 85.20 (b) (7), which requires a cash management system, in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement by the grantee. |
| Cause of Condition | The Federal Program Department did not maintain appropriate cash management procedures in order to request funds to federal agencies only for immediate needs. |
| Effect of Condition | The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7). |
| Recommendation | We recommend that management should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality. |
| Questioned Costs | None |
| Management Response and Corrective Action Plan | This finding is due to fact that once checks are generated and mailed to unit owners; the owners do not cash checks in a timely basis, resulting in an unacceptable amount in account balance. This situation is beyond our control. We will explore the services of direct deposit which will correct this finding. |

Responsible Person: George Pereira
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|--|
| Finding Reference | 04-04 |
| Program | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development |
| Requirement | Eligibility Test |
| Statement of Condition | <p>We performed an eligibility test and examined a sample of twenty-five (25) participant files. The following summarize the deficiencies found:</p> <ul style="list-style-type: none">a. In two (2) cases the evidence of income family did not agree with the income detailed in the Family Report.b. Ten (10) of the files did not contain rent reasonableness documentation.c. Fifteen (15) of the files did not document adequately the determination of reasonable rent. |
| Criteria | <p>Code of Federal Regulations 24, Sections 2.212, 5.230, and 5.601 through 5.617 states that as a condition of admission or continued occupancy, it requires the tenant and other family members to provide necessary information, documentation and releases for the PHA to verify income eligibility. In addition, Code of Federal Regulations 24, Sections 982.54 (d) (15), 982.158 (f) (7) and 982.507 states that the PHA must determine reasonable rent at the time of the initial leasing and before any increase in the rent to the owner and all the times during the assisted tenancy, the rent to owner may not exceed the reasonable rent as most recently determined or re-determined by the PHA. Also, the Housing Voucher Guidebook in its Chapter 9 "Rent Reasonableness" establishes that if the rent are approved at levels lower than comparable units in the private market, the better owners do not participate in the program, or they participate only with their lowest -cost and lower quality units.</p> |
| Cause of Condition | <p>The Municipality does not have adequate internal control procedures to assure that the participant's files include all required documentation and releases required by federal agencies.</p> |
| Effect of Condition | <p>The Municipality is not in compliance with Code of Federal Regulations 24, Sections 2.212, 5.230, and 5.601 through 5.617.</p> |

COMMONWEALTH OF PUERTO RICO
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

| | |
|--------------------------|--|
| Finding Reference | 04-04 (Continued) |
| Program | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development |
| Recommendation | We recommend the Program to establish the following procedures: <ul style="list-style-type: none">a. Implement internal control procedures to assure that the participant's files include all mandatory documentation required by federal agencies.b. Corroborate that the evidence of family income obtained from third parties agrees with income reported in the Family Report.c. Implement a detailed form and documentation that show reasonableness in the rent. |

| | |
|-------------------------|------|
| Questioned Costs | None |
|-------------------------|------|

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|---|--|
| Management Response and Corrective Action Plan | A. When there is a discrepancy between the affidavit and the certified employment verification in the salary amount, we will use the employment verification for our calculation. Also, we will verify employment via the phone. |
|---|--|

B and C: On March 17, 2005 we received a visit from HUD Caribbean Section Office. Mrs. Ana Colon reviewed our program and offered suggestions and guidance on administering our Section 8 program. As part of our guidance she supplied us with a copy of NOTICE PIH 2005-9 issued on February 25, 2005. This notice mentions changes to "Ensuring Reasonable Rents" which we are now implementing and made part of our Administrative Plan.

Responsible Person: George Pereira
Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

| | |
|-------------------------------|--|
| Finding Reference | 04-05 |
| Program | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development |
| Requirement | Special Test - Selection from the Section 8 Waiting List |
| Statement of Condition | We found that the PHA did not select the participants from the top of the waiting list according with the PHA's applicant selection policies. |
| Criteria | <p>Code of Federal Regulations 24, Section 882.514 states that the PHA must select families for participation in accordance with the provisions of the program and in accordance with the PHA's application, including any PHA requirement or preferences as approved by HUD.</p> <p>The PHA administrative plan states that, except for special admissions, participant must be selected from the PHA waiting list. The PHA must select participant from the waiting list on a first-come, first-served basis, in accordance with this same plan, which includes equal opportunity.</p> |
| Cause of Condition | The Municipality controls and procedures failed to assure that the participants were selected from the top of the waiting list according with the PHA's applicant selection policies. |
| Effect of Condition | The Municipality is not in compliance with 24 CFR, Section 882.514 and with the PHA administrative plan. |
| Recommendation | We recommend management to improve monitoring procedures to assure that the participant are admitted to the program or are provided the opportunity to be admitted to the program according with the PHA administrative plan. Also, we recommend the management to establish adequate internal control procedures to let us perform a proper tracing of participants selected from the waiting list in order to ascertain that the participant selection is made from the top of the waiting list. |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III – Major Federal Award Program Findings and Questioned Costs

| | |
|---|--|
| Finding Reference | 04-05 (Continued) |
| Program | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development |
| | Also, the program must maintain adequate documental information of the date that the program gives the opportunity of housing assistance to the participants and the date that the voucher was issued. |
| Questioned Costs | None |
| Management Response and Corrective Action Plan | In these cases participants were justified using our “Special Admission” procedures outlined in our administrative plan. All justification documentation has been updated and will be included in the files. |
| | Responsible Person: George Pereira Federal Programs Department Director |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

Section III - Major Federal Award Program Findings and Questioned Costs

| | |
|---|---|
| Finding Reference | 04-06 |
| Program | Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development |
| Requirement | Special Test - Utility Allowance Schedule |
| Statement of Condition | During our Utility Allowance Schedule Test, we noted that the PHA did not maintain an updated utility schedule. |
| Criteria | Code of Federal Regulations 24, Sections 982.503, 982.517 and 982.405 states that the PHA must develop, review and maintain an updated utility schedule. |
| Cause of Condition | The PHA did not maintain an updated utility schedule for the determination that the utility allowance is reasonable. |
| Effect of Condition | The Municipality is not in compliance with 24 CFR, Sections 982.503, 982.517 and 982.405. |
| Recommendation | We recommend the PHA develop, review and maintain an updated utility schedule. It must review the utility rate it has obtained within the last twelve (12) months, and adjust its allowance schedule to reflect changes of 10% or more. |
| Questioned Costs | None |
| Management Response and Corrective Action Plan | We have an updated Utility Allowance Schedule which we will seek approval when we submit our new budget in 2005. We will also discuss this issue with HUD Section 8 office in San Juan. |

Responsible Person: George Pereira
Federal Programs Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133) |
|-------------------------|----------|--|
| 02-04 | 14.218 | <p><u>The Municipality should establish the following procedures: provide an application form to be completed by the participant and signed by all family members who are at least 18 years old; provide a Federally prescribed general release form for employment information and a Privacy Act Notice to be signed by all members of the family who are at least 18 years old; implement internal control procedures to assure that the participant's files include all required documentation required by federal agencies.</u></p> <p>Corrective action was taken.</p> <p>This finding was corrected substantially; the few instances for corrective action were included in the Management Letter.</p> |
| 02-05 | 14.871 | <p><u>The Municipality should strengthen it's procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.</u></p> <p>No corrective action was taken. See current year finding number 04-03</p> |
| 02-07 | 14.871 | <p><u>The Municipality should establish the following procedures: provide an application form to be completed by the participant; corroborate that the evidence of family income obtained from third parties to be agree with income reported in the family report; implement a detailed form and documentation that show reasonableness in the rent and implement internal control procedures to assure that the participant's files include all required documentation required by federal agencies.</u></p> <p>No corrective action was taken. See current year finding number 04-04</p> |
| 02-08 | 14.871 | <p><u>The Municipality prepared and organizes a waiting list with the parameters established, but did not follow admission procedures to establish adequate internal control procedures to let us perform a proper tracing of participants selected from the waiting list in order to ascertain that the participant selection was made from the top of waiting list. Also, the program must maintain adequate documental information of the date that the program gives the opportunity of housing assistance to the participants and the date that the voucher was issued.</u></p> <p>Partially corrective action was taken. See current year finding number 04-05</p> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2004

| Original Finding Number | CFDA No. | Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133) |
|-------------------------|----------|--|
| 02-10 | 14.871 | <u>The Municipality should develop, review and maintain an updated utility schedule. It must review the utility rate it has obtained within the last twelve (12) months, and adjust its allowance schedule to reflect changes of 10% or more.</u> No corrective action was taken. See current year finding number 04-06 |