

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

MUNICIPIO DE CIDRA
AUDITORIA 2004-2005
30 DE JUNIO DE 2005

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DE ASUNTOS MUNICIPALES
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COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF CIDRA

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2005

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SINGLE AUDIT REPORT

YEAR ENDED JUNE 30, 2005

CONTENTS

	Page
<u>BASIC FINANCIAL STATEMENTS</u>	
Independent Auditor's Report	1-2
Required Supplemental Information (Part I): Management's Discussion and Analysis	3-11
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements -Governmental Funds:	
Balance Sheet	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
Notes to basic financial statements	17-36
<u>SUPPLEMENTARY INFORMATION</u>	
Required Supplemental Information (Part II):	
Budgetary Comparison Schedule-General Fund	37
Notes to Budgetary Comparison Schedule-General Fund	38
Schedule of expenditures of federal awards ✓	39-40
Notes to the schedule of expenditures of federal awards	41
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Independent auditors' report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	42-43

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
SINGLE AUDIT REPORT
YEAR ENDED JUNE 30, 2005

CONTENTS - (CONTINUED)

	Page
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS (CONTINUED)</u>	
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	44-46
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of findings and questioned cost	47-53
Summary schedule of prior year audit findings	54



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, 2005, 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, 2005, 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 November 18, 2005 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
November 18, 2005

Stamp No. 2019487 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, 2005

Management's Discussion and Analysis

This discussion and analysis of the Municipality of Cidra (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2005. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. This 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.

FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2005 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

- Total Net Assets of the Municipality as of the end of the indicated fiscal year amounted to \$35,347,038, or forty eight percent (48%) of total assets.
- The Municipality's total Net Assets increased by \$6,762,288, or a 23% from the prior fiscal year-end balance.
- In the fund financial statements, the governmental activities revenue increased \$ 1,611,577 (or 7%) while governmental activities expenditures increase \$ 196,321 (or 15%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$ 2,219.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$ 282,164.
- The Municipality issued bonds amounting to \$5,360,000 to fund constructions projects.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

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, 2005

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 \$ 35,347,038 at the end of 2005, compared to \$ 28,584,750 at the end of the previous year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

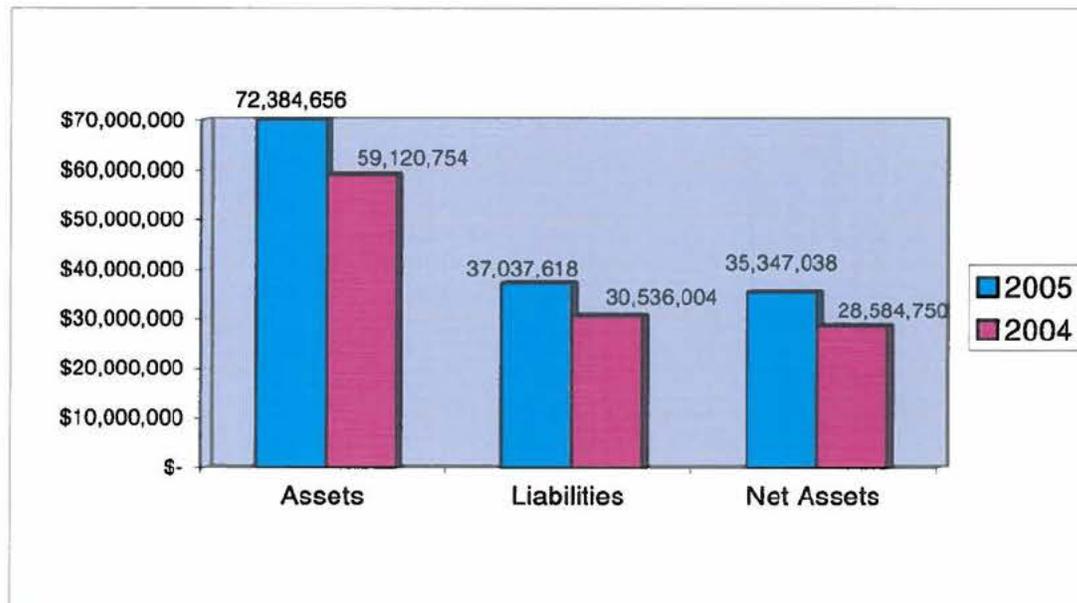
YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets (Continued)

Condensed Statement of Net Assets

	2005	2004	Change	%
Current assets	\$25,468,441	\$22,994,911	\$2,473,530	11%
Capital assets	29,084,766	19,623,938	9,460,828	48%
Other assets	17,831,449	16,501,905	1,329,544	8%
Total assets	72,384,656	59,120,754	13,263,902	22%
Current liabilities	11,818,065	9,939,743	1,878,322	19%
Noncurrent liabilities	25,219,553	20,596,261	4,623,292	22%
Total liabilities	37,037,618	30,536,004	6,501,614	21%
Invested in capital assets, net of related debt	29,961,215	24,365,843	5,595,372	23%
Restricted	9,040,927	7,802,938	1,237,989	16%
Unrestricted	(3,655,104)	(3,584,031)	(71,073)	2%
Total net assets	\$35,347,038	\$28,584,750	\$6,762,288	24%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Changes in Net Assets

The Municipality's net assets increase by \$ 6,762,288. Approximately 52 percent of the Municipality's total revenue came from taxes, while 45 percent resulted from grants and contributions, including federal aid. Charges for Services provided 1 percent of the total revenues. Interest and investment earnings and miscellaneous 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)

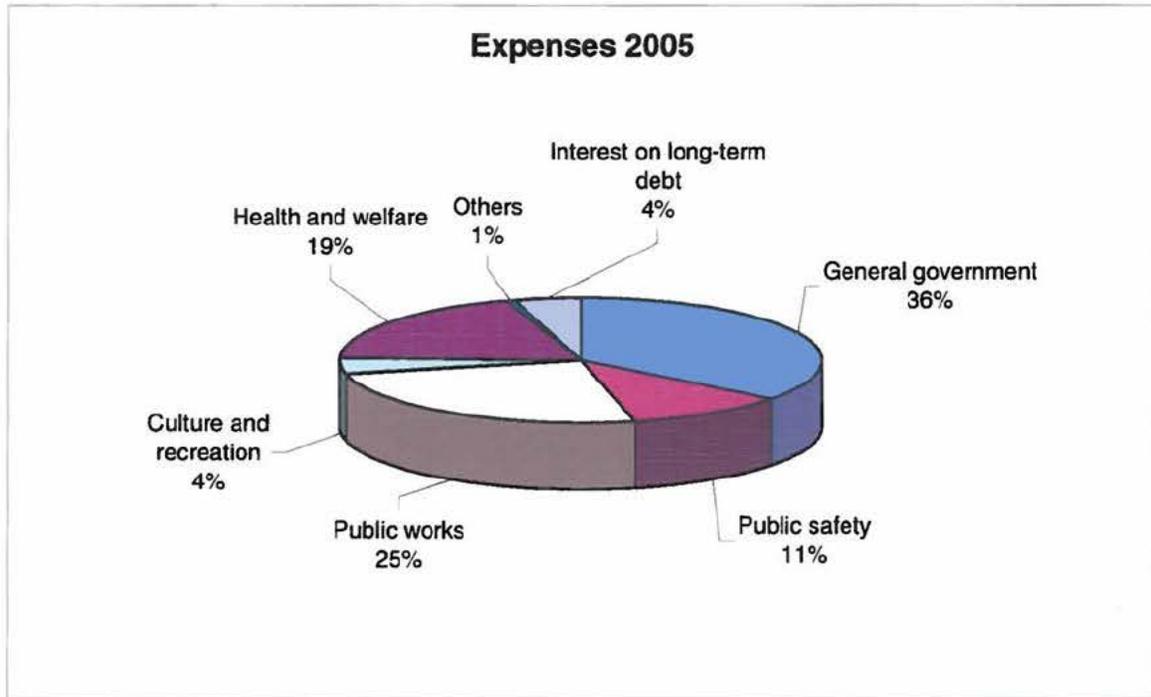
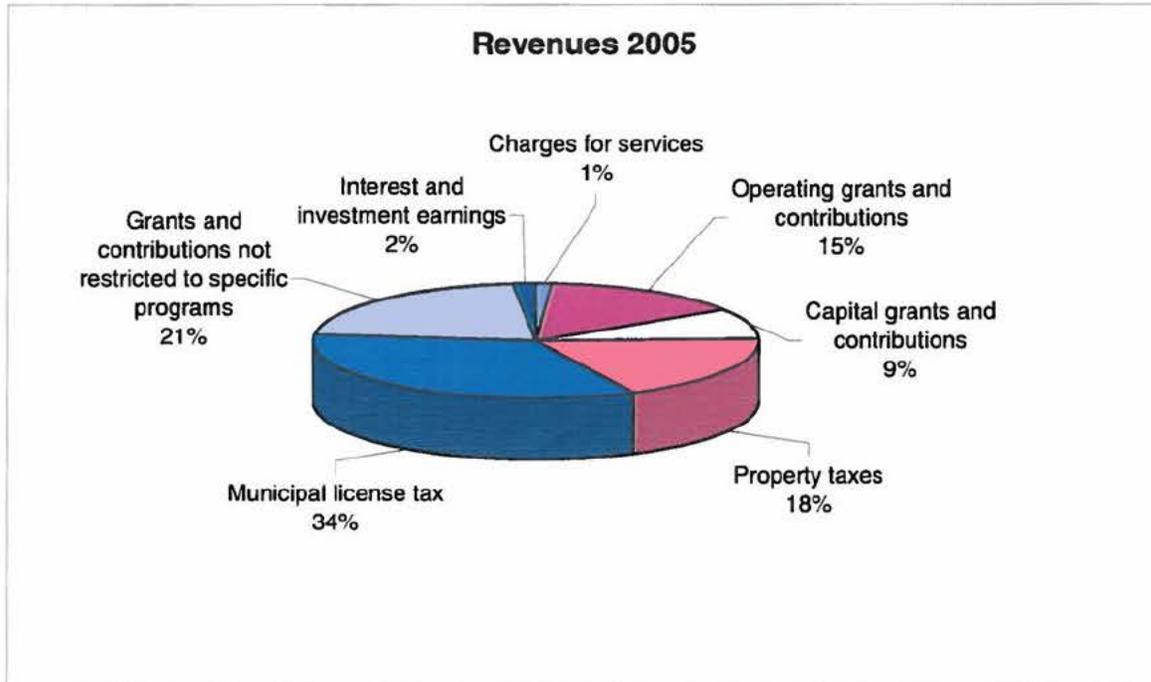
Condensed Statement of Activities	2005	2004	Change	%
Program revenues:				
Charges for services	\$315,113	\$417,971	(\$102,858)	(25%)
Operating grants and contributions	4,010,440	3,736,604	273,836	7%
Capital grants and contributions	2,387,933	1,176,073	1,211,860	103%
General revenues:				
Property taxes	5,075,749	5,812,320	(736,571)	(13%)
Municipal license tax	9,336,126	8,673,384	662,742	8%
Grants and contributions not restricted to specific programs	5,990,401	4,661,011	1,329,390	29%
Interest and investment earnings	437,860	249,719	188,141	75%
Miscellaneous	6,943	46	6,897	14993%
Total revenues	27,560,565	24,727,128	2,833,437	11%
Expenses:				
General government	7,384,630	9,344,104	(1,959,474)	(21%)
Public safety	2,253,288	1,657,357	595,931	36%
Public works	5,198,370	6,299,800	(1,101,430)	(17%)
Culture and recreation	895,479	787,299	108,180	14%
Health and welfare	4,024,652	3,987,507	37,145	1%
Economic development	2,640	55,926	(53,286)	(95%)
Other	105,095	10,934	94,161	861%
Interest on long-term debt	934,123	579,224	354,899	61%
Total expenses	20,798,277	22,722,151	(1,923,874)	(8%)
Change in net assets	6,762,288	2,004,977	4,757,311	237%
Net assets, beginning of year	28,584,750	26,579,773	2,004,977	8%
Net assets, end of year	\$35,347,038	\$28,584,750	\$6,762,288	24%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Changes in Net Assets (Continued)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$13,650,376, an increase of \$595,208 in comparison with the prior year. There are reservations of fund balance amounting to \$13,624,414. 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 (\$9,347,055), 2) to pay debt service (\$ 1,081,608), 3) to pay for capital projects (\$1,723,132) and 4) for other purposes (\$ 1,472,619).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2005, the general fund has a fund balance of \$ 154,449.

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, 2005, amounts to \$ 67,080,528, net of accumulated depreciation of \$ 20,164,313, leaving a net book value of \$ 46,916,215. 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, 2005

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 30% in terms of net book value. Depreciation charges for the year totaled \$ 1,541,628.

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, 2005, the Municipality has \$10,678,835 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, 2005

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 2005-2006 fiscal year.

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, 2005

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 13,502,308
Cash with fiscal agent	11,231,623
Accounts receivable:	
Municipal license tax	123,425
Construction excise taxes	406,620
Intergovernmental	172,886
Other	31,579
Capital assets	
Land, improvements, and construction in progress	29,084,766
Other capital assets, net of depreciation	17,831,449
Total capital assets	46,916,215
Total assets	72,384,656
 Liabilities	
Accounts payable and accrued liabilities	988,776
Due to other governmental entities	61,089
Deferred revenues:	
Municipal license tax	10,604,501
Federal grant revenues	163,699
Noncurrent liabilities:	
Due within one year	1,385,839
Due in more than one year	23,833,714
Total liabilities	37,037,618
 Net Assets	
Invested in capital assets, net of related debt	29,961,215
Restricted for:	
Capital projects	6,223,835
Debt service	1,081,608
Federal and state grant funds	1,735,484
Unrestricted (deficit)	(3,655,104)
Total net assets	\$ 35,347,038

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

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 7,199,821	\$ 35,999	\$ 852,301	\$ 2,247,933	\$ (4,063,588)
Public safety	2,253,288	63,253	79,338		(2,110,697)
Public works	5,198,370		1,549,127	140,000	(3,509,243)
Health and welfare	4,024,652	202,244	1,394,829		(2,427,579)
Culture and recreation	895,479	13,617	134,845		(747,017)
Economic development	2,640				(2,640)
Interest on long-term debt	1,118,932				(1,118,932)
Other	105,095				(105,095)
Total governmental activities	\$ 20,798,277	\$ 315,113	\$ 4,010,440	\$ 2,387,933	\$ (14,084,791)

General revenues:

Property taxes	5,075,749
Municipal license tax	9,336,126
Grants and contributions not restricted to specific programs	5,990,401
Interest and investment earnings	437,860
Miscellaneous	6,943
Total general revenues	20,847,079
Change in net assets	6,762,288
Net assets - beginning	28,584,750
Net assets - ending	\$ 35,347,038

**Commonwealth of Puerto Rico
Municipality of Cidra
Balance Sheet
Governmental Funds
June 30, 2005**

	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	\$ 10,015,696	\$ 1,357,851	\$ 1,881,304	\$ 247,457	\$ 13,502,308
Cash with fiscal agent		1,189,772	8,960,243	1,081,608	11,231,623
Accounts receivable:					
Municipal license tax	123,425				123,425
Construction excise taxes	406,620				406,620
Intergovernmental		61,937	3,964	106,985	172,886
Other	31,579				31,579
Due from other funds	1,051,636	42,606		106,100	1,200,342
Total assets	\$ 11,628,956	\$ 2,652,166	\$ 10,845,511	\$ 1,542,150	\$ 26,668,783
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 808,702	\$ 110,401	\$ 62,889	\$ 6,784	\$ 988,776
Due to other governmental entities	61,089				61,089
Due to other funds	215	898,933	103,787	197,407	1,200,342
Deferred revenues:					
Municipal license tax	10,604,501				10,604,501
Federal grant revenues				163,699	163,699
Total liabilities	11,474,507	1,009,334	166,676	367,890	13,018,407
Fund balances:					
Reserved for:					
Encumbrances	128,487	170,213	8,955,703	92,652	9,347,055
Capital projects			1,723,132		1,723,132
Other purposes		1,472,619			1,472,619
Reserved reported in nonmajor funds:					
Debt service fund				1,081,608	1,081,608
Unreserved:					
Undesigned	25,962				25,962
Total fund balances	154,449	1,642,832	10,678,835	1,174,260	13,650,376
Total liabilities and fund balances	\$ 11,628,956	\$ 2,652,166	\$ 10,845,511	\$ 1,542,150	

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	46,916,215
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(25,219,553)
Net assets of governmental activities	\$ 35,347,038

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund (01)	Special Revenue Fund (02) State & Federal	Capital Projects Fund (20 & 21) State & Federal	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 4,194,343	\$ -	\$ -	\$ 881,406	\$ 5,075,749
Municipal license taxes	9,336,126				9,336,126
Licenses, permits and other local taxes	2,067,528				2,067,528
Intergovernmental	3,441,350	862,177	140,000		4,443,527
Rent of property	13,617				13,617
Fines and forfeitures	63,253				63,253
Interest	437,860				437,860
Federal grants		314,821		2,481,088	2,795,909
Miscellaneous	719,766	344,414	6,943	7,940	1,079,063
Total revenues	\$ 20,273,843	\$ 1,521,412	\$ 146,943	\$ 3,370,434	\$ 25,312,632
Expenditures					
Current:					
General government	8,507,329	699,336	3,048,460	535,822	12,790,947
Public safety	2,244,189				2,244,189
Public works	5,447,127	1,427,209	588,221	560,485	8,023,042
Health and welfare	2,460,627	197,504		1,301,231	3,959,362
Culture and recreation	754,554				754,554
Economic development	240,333	32,101			272,434
Other		6,407	95,697	1,860	103,964
Debt service:					
Principal	125,000			685,000	810,000
Interest	216,092		342,835	560,005	1,118,932
Total expenditures	19,995,251	2,362,557	4,075,213	3,644,403	30,077,424
Excess (deficiency) of revenues over (under) expenditures	278,592	(841,145)	(3,928,270)	(273,969)	(4,764,792)
Other financing sources (uses)					
Transfers in		98,395	177,978		276,373
Transfers out	(276,373)				(276,373)
Long-term debt issued		905,000	4,455,000		5,360,000
Total other financing sources (uses)	(276,373)	1,003,395	4,632,978	-	5,360,000
Net change in fund balances	2,219	162,250	704,708	(273,969)	595,208
Fund balance, beginning	152,230	1,480,582	9,974,127	1,448,229	13,055,168
Fund balance, ending	\$ 154,449	\$ 1,642,832	\$ 10,678,835	\$ 1,174,260	\$ 13,650,376

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

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, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 595,208

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. 10,154,576

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 (1,541,628)

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. (190,801)

Change in landfill accrual 47,000

Bonds Payable (4,455,000)

Some revenues reported in the Statement of Activities do not provide current financial resources in Governmental Funds. 2,247,933

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. (95,000)

Change in Net Assets of Governmental Activities \$ 6,762,288

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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, 2005

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, 2005

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, 2005

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, 2005

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, 2005

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, 2005

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 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, 2005

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, 2005

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, 2005 amounted to approximately \$ 257,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$359,000 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	\$ 46,916,215
Bonds Payable	(16,310,000)
Note Payable	(5,100,000)
Advances from CRIM	(97,721)
Accrued compensated absences	(2,758,832)
Landfill closure and post closure care costs	(953,000)
	<hr/>
Net adjustment to reduce fund balance total governmental funds to arrive at net assets-governmental activities	\$ 21,696,662
	<hr/>

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 \$10,000,000 in the general fund were fully collateralized at June 30, 2005. In the other governmental funds there were deposits with commercial banks of approximately \$247,000 that were fully collateralized, \$1,357,851 in the special revenue fund (02) and \$5,885,669 in the capital projects fund (20 & 21).

The deposits at GDB of approximately \$ 1,150,000 those are restricted principally for capital projects, and the \$ 1,081,608 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, 2005

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, 2005, 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, 2005, 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 receivable in the Special Revenue (02), Capital Projects (20 & 21) 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	\$ 37,886
Even Start	11,657
Emergency Shelter Grants Program	8,637
Others	114,706
Total	<u>\$ 172,886</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

3. RECEIVABLES (CONTINUED):

c. Other- Other accounts receivable as of June 30, 2005 are as follows:

	<u>Governmental Type Funds</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Medical Plans	<u>\$ 31,579</u>	<u>-</u>	<u>\$ 31,579</u>
Total other receivables	<u>\$ 31,579</u>	<u>\$ -</u>	<u>\$ 31,579</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2005 are summarized as follows:

a. Due from/to other fund:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 1,051,636	\$ 215
Other Governmental Fund	106,100	197,407
Special Revenue Fund (02)	42,606	898,933
Capital Projects Funds (20 & 21)	<u>-</u>	<u>103,787</u>
Total	<u>\$ 1,200,342</u>	<u>\$ 1,200,342</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 improvements of recreational facilities.	\$ 98,395
General Fund	Capital Projects Fund (20 & 21)	Transfer of funds for Capital Outlays	<u>177,978</u>
Total			<u>\$276,373</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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 2005, 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, 2004	Additions	Retirements	Balance June 30, 2005
Capital asset, not being depreciated:				
Construction in progress	\$ 432,271	\$7,401,019	(\$67,220)	\$ 7,766,070
Land	19,191,667	2,127,029	(-)	21,318,696
Total capital assets not being depreciated	<u>\$19,623,938</u>	<u>\$9,528,048</u>	<u>(\$67,220)</u>	<u>\$29,084,766</u>
Capital assets, being depreciated:				
Buildings and building improvements	\$11,508,681	\$328,809	(\$ -)	\$11,837,490
Infrastructure	14,498,689	2,315,538	(-)	16,814,227
Equipment	4,169,365	186,276	(93,818)	4,261,823
Works of art	185	0	(-)	185
Vehicles	5,038,199	43,838	(-)	5,082,037
Total capital assets being depreciated	<u>\$35,215,119</u>	<u>\$ 2,874,461</u>	<u>(\$93,818)</u>	<u>\$37,995,762</u>
Less accumulated depreciation for:				
Buildings and building improvements	(\$ 4,673,784)	(\$300,737)	\$ -	(\$4,974,521)
Infrastructure	(7,158,184)	(377,097)	-	(7,535,281)
Equipment	(3,113,574)	(396,216)	90,529	(3,419,261)
Works of art	(175)	(10)	-	(185)
Vehicles	(3,767,497)	(467,568)	-	(4,235,065)
Total accumulated depreciation	<u>(\$18,713,214)</u>	<u>(\$ 1,541,628)</u>	<u>\$ 90,529</u>	<u>(\$20,164,313)</u>
Total capital assets being depreciated, net	<u>16,501,905</u>	<u>1,332,833</u>	<u>(\$ 3,289)</u>	<u>\$17,831,449</u>
Governmental activities capital assets, net	<u>\$ 36,125,843</u>	<u>\$10,860,881</u>	<u>(\$70,509)</u>	<u>\$46,916,215</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

5. CAPITAL ASSETS (CONTINUED):

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

Governmental activities:

General government	\$ 193,484
Public safety	63,594
Public works	664,401
Culture and recreation	164,295
Health and welfare	67,485
Community development	<u>388,369</u>
Total depreciation expense-governmental activities	<u>\$1,541,628</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. At the date of release of these financial statements, the CRIM issued the preliminary liquidation noting that advances exceeded collections by \$97,721. This excess will not be funded with available expendable financial resources at June 30, 2005. Based on this, such amount was presented in the government-wide financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

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 8.58% for real property and 6.58% 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) 1.75% 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	\$ 352
Department of Labor	8,115
Puerto Rico Telephone	47,251
Puerto Rico Aqueduct and Sewer Authority	1,390
Other	<u>3,981</u>
Total	<u>\$ 61,089</u>

8. DEFERRED REVENUES

- a. **Municipal License Tax-** The deferred revenues of approximately \$10,605,000 in the general fund relates to municipal license tax collected in fiscal year 2004-05 that will be earned in fiscal year 2005-06.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

8. DEFERRED REVENUES (CONTINUED):

- b. **Federal Government-** The deferred revenues presented in the 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 \$ 163,699

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$11,760,000	\$5,360,000	\$(810,000)	\$16,310,000	\$ 945,000
Notes Payable	5,100,000			5,100,000	50,000
Advances from CRIM		97,721		97,721	
Compensated Absences	2,736,261	22,571		2,758,832	343,839
Landfill obligation	1,000,000		(47,000)	953,000	47,000
Total	<u>\$20,596,261</u>	<u>\$5,480,292</u>	<u>\$(857,000)</u>	<u>\$25,219,553</u>	<u>\$1,385,839</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 constructions projects. During the current year, the Municipality issued bonds for approximately \$5,360,000. Bonds payable outstanding at June 30, 2005 are as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2005

9. LONG-TERM LIABILITIES (CONTINUED):

Type of bonds	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2005
1992 Series	7-1-06	\$ 1,530,000	3.2% to 6.3%	\$ 340,000
1996 Series	7-1-21	605,000	4.8% to 6.7%	520,000
1997 Series	7-1-06	1,435,000	4.8% to 6.7%	385,000
2000 Series	7-1-24	260,000	2.7% to 7.8%	235,000
2000 Series	7-1-24	710,000	2.7% to 7.8%	655,000
2000 Series	7-1-25	555,000	2.7% to 7.8%	130,000
2000 Series	7-1-25	6,440,000	2.7% to 7.8%	6,040,000
2001 Series	7-1-06	430,000	5.0% to 8.0%	190,000
2002 Series	7-1-06	1,335,000	4.8% to 6.7%	1,255,000
2002 Series	7-1-26	580,000	5.0% to 6.5%	560,000
2003 Series	7-1-11	725,000	5.0% to 6.0%	640,000
2004 Series	7-1-30	4,020,000	5.00%	4,020,000
2004 Series	7-1-15	905,000	5.00%	905,000
2005 Series	7-1-30	435,000	4.3% to 5.0%	435,000
Total general obligation bonds				<u>\$16,310,000</u>

These bonds are payable from the ad valorem property tax of 1.75% 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
2006	\$ 950,000	\$ 798,157
2007	980,000	785,090
2008	540,000	746,635
2009	570,000	718,778
2010	600,000	688,353
2011-2015	3,110,000	2,951,314
2016-2020	3,450,000	2,136,882
2021-2025	4,100,000	1,090,544
2026-2030	2,010,000	200,018
Total	<u>\$ 16,310,000</u>	<u>\$10,115,771</u>

- c. **Compensated absences-** The government-wide statement of net assets includes approximately \$ 2,758,000 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, 2005

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 comply with applicable state and federal regulations. Based on this study, the Municipality has recognized \$ 953,000 as the Municipality's estimated current cost for landfill post-closure costs as of June 30, 2005. The annual estimate of post closure costs has been assessed approximately to be \$ 47,000 for a period of approximately 19 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of post-closure costs is reported in the government-wide statement of net assets.
- e. **Note payable-** The note payable transaction for the year ended June 30, 2005, was as follows:

Balance at July 1, 2004	\$ 5,100,000
Loan Proceeds	-
Payments	-
Balance at June 30, 2005	<u>\$ 5,100,000</u>

Note payable at June 30, 2005 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2005
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, 2005

9. LONG-TERM LIABILITIES (CONTINUED):

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2005, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	50,000	269,040
2007	100,000	266,918
2008	125,000	263,110
2009	150,000	257,848
2010	175,000	251,067
2011-2015	1,250,000	1,097,846
2016-2020	1,875,000	682,904
2021-2023	1,375,000	121,496
Total	<u>\$ 5,100,000</u>	<u>\$3,210,229</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, 2005

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, 2005 recorded as pension expenditures were approximately \$ 643,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2005.

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, 2005, 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, 2005

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, 2005, 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, 2005

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$3,746,696	\$ 4,184,677	\$ 4,194,344	\$ 9,667
Municipal license tax	8,850,000	9,335,182	9,336,126	944
Licenses, permits and other local taxes	440,000	2,049,781	2,067,528	17,747
Intergovernmental	3,441,350	3,441,350	3,441,350	-
Rent of property	4,200	13,086	13,617	531
Fines and forfeitures	10,000	63,253	63,253	-
Interest	325,000	440,790	437,860	(2,930)
Miscellaneous	<u>349,000</u>	<u>677,984</u>	<u>719,765</u>	<u>41,781</u>
Total revenues	<u>17,166,246</u>	<u>20,206,103</u>	<u>20,273,843</u>	<u>67,740</u>
EXPENDITURES AND OTHER				
FINANCING USES:				
Current:				
General government	8,466,920	8,646,573	8,500,982	145,591
Public safety	1,676,047	2,244,943	2,244,523	420
Public works	4,365,367	5,191,294	5,173,634	17,660
Health and welfare	1,459,404	2,488,644	2,459,791	28,853
Culture and recreation	1,198,508	773,611	754,952	18,659
Economic development		241,224	240,333	891
Principal		125,000	125,000	-
Interest		218,442	216,092	2,350
Operating transfer to other funds		<u>276,372</u>	<u>276,372</u>	<u>-</u>
Total expenditures and other financing uses	<u>17,166,246</u>	<u>20,206,103</u>	<u>19,991,679</u>	<u>214,424</u>
EXCESS OF REVENUES OVER EXPENDITURES			<u>\$ 282,164</u>	<u>\$282,164</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 20,273,843
Differences-budget to GAAP:				
GAAP adjustments to revenues				<u>-</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 20,273,843</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$19,991,679
Differences-budget to GAAP:				
Nonbudgeted expenditures				269,505
Prior year encumbrances recorded as current year expenditures for GAAP basis				138,927
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(128,487)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 20,271,624</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

YEAR ENDED JUNE 30, 2005

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, 2005 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2005.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

<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		\$ 1,098,536
Community Development Block Grants-Entitlement Grants	14.218	B-03-MC-72-0021 B-04-MC-72-0021	1,315,842
Local Economic	14.221		14,715
Community Development Block Grants-Section 108 Loan Guarantee	14.248		3,391,295
Pass-through Commonwealth of Puerto Rico Department of the Family: Emergency Shelter Grants Program	14.231	S-99-DC-72-0001	43,680
Total U.S. Department of Housing and Urban Development			<u>5,864,068</u>
U.S DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Rural Self-Help Housing Technical Assistance	10.420		69,641
Rural Housing Site Loans and Self-Help Housing Land Development Loans	10.411		69,797
Total U.S. Department of Agriculture			<u>139,438</u>
U.S DEPARTMENT OF HOMELAND SECURITY:			
Pass-through Commonwealth of Puerto Rico – Governor Authorized Representative (GAR):			
Public Assistance Grant	83.544	DR-1552	68,048
Pass-through Commonwealth of Puerto Rico Department of Justice: Homeland Security Grant Program	97.067	2004-GE-MD-01	13,957
Total U.S. Department of Homeland Security			<u>82,005</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SECCHEDULE OF EXPENDITURES OF FEDERAL AWARDS- (CONTINUED)

YEAR ENDED JUNE 30, 2005

<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		\$ 356,731
Pass-through the Commonwealth of Puerto Rico Highway Safety and Drunk Driving Prevention Incentive Grant			
	20.601		<u>40,260</u>
Total U.S. Department of Transportation			<u>396,991</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico-ACUDEN:			
Child Care and Development Block Grant	93.575	NOT AVAILABLE	<u>13,781</u>
Total U.S. Department of Health and Human Services			<u>13,781</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		138,126
Pass-through the Commonwealth of Puerto Rico-Department of Education			
Library Services and Technology Grant	N/A		<u>34,308</u>
Total U.S. Department of Education			<u>172,524</u>
Total Expenditures of Federal Awards			<u>\$ 6,668,717</u>

The accompanying notes are an integral part of this schedule

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

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:

<u>Description</u>	<u>Special Revenue (02)</u>	<u>Capital Projects Fund (20 & 21)</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 378,295	\$3,391,295	\$2,899,127	\$ 6,668,717
Non federal programs Expenditures	<u>1,984,262</u>	<u>683,918</u>	<u>745,276</u>	<u>3,413,456</u>
Total expenditures in the basic financial statements	<u>\$2,362,557</u>	<u>\$4,075,213</u>	<u>\$3,644,403</u>	<u>\$10,082,173</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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- 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 governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cidra** as of and for the year ended June 30, 2005, and have issued our report thereon dated November 18, 2005, 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 November 18, 2005.

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
November 18, 2005

Stamp No. 2019488 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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- Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor
and the Municipal 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, 2005. 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, 2005. 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 **05-01** through **05-03**.

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 **05-01** through **05-03**.

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 November 18, 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
November 18, 2005

Stamp No. 2019489 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, 2005

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
20.507	Federal Transit-Formula Grant

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

Auditee qualified as low-risk auditee? Yes X No _____

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-01
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	During our Cash Management test, we noted that the Municipality maintained an excessive average cash balance in books. The average requested funds that were not disbursed on a reasonable lapse of time. Also, a monthly average cash balance of \$62,677.37 was maintained during the fiscal year ended June 30, 2005.
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	<p>We recommend that management should strengthen its procedures to minimize the time elapsed between the transfer of funds from the federal agency and the disbursements made by the Municipality.</p> <p>In addition, the Municipality's Management must instruct the program accountant to review the accounting records and related transactions supporting documents for the current and past years in order to identify the cash balance respect to its origin, and later, to make any necessary adjusting journal entries to correct accounting records.</p>
Questioned Costs	None

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference

05-01 (Continued)

Program

Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development

**Management Response and
Corrective Action Plan**

The Municipality's Management concurs with the finding. This is an old balance under Certificate Programs of Section 8. This money would be verify to determine if any administration money is available which would be transferred to our current administration funds under the Voucher Program and the remaining balance will be returned to HUD.

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, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-02
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Special Test - Selection from the waiting list
Statement of Condition	Newspaper publication informing to the public that a new waiting list was prepared during the fiscal year 2003-2004 was not available for our examination.
Criteria	<p>Code of Federal Regulations 24, Sections 982.206 a (1) states that when the PHA opens a waiting list, the PHA must give public notice to those families want to apply for tenant-based assistance. The public notice must state where and when to apply.</p> <p>Code of Federal Regulations 24, Sections 982.206 a (2) states that the PHA must give the public notice by publication in a local newspaper of general circulation, and also by minority media and other suitable means. The notice must comply with HUD fair housing requirements.</p>
Cause of Condition	The Municipality failed to maintain support evidence of the public notice to the families when they opened a new waiting list used during the fiscal year 2003-2004.
Effect of Condition	The Municipality is not in compliance with 24 CFR Sections 982.206 a (1) and 982.206 a (2).
Recommendation	<p>We recommend to the Municipality management that gives the public notice by publication in a local newspaper of general circulation, and also by minority media and other suitable means.</p> <p>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.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-02 (Continued)
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Questioned Costs	None
Management Response and Corrective Action Plan	The Municipality's Management concurs with the finding. The program staff were instructed to maintain adequate documental information about the advices in the media like (local newspaper and minority media) when it open and close the waiting list. 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, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-03
Program	Federal Transit-Formula Grant Program (CFDA. No. 20.507); U.S. Department of Transportation
Requirement	Procurement and Suspension and Debarment - Contract Provision
Statement of Condition	During our contract provisions test, we identified the following conditions: a. One (1) contract related with construction of additions to existing building did not include provisions for compliance with the "Seismic Safety Requirement". b. Two (2) contracts did not include the provisions for compliance with the "Energy Conservation Requirement"
Criteria	Code of Federal Regulations 49, Sections 41.100 to 41.125 states that any new buildings and additions to existing buildings constructed with Federal financial assistance must be designed and constructed in accord with seismic standards approved by the DOT operating Administration. Also, Code of Federal Regulations 49, Section 18.36 states that constructions or facility improvement contracts or subcontracts exceeding the simplified acquisition threshold must be following the minimum condition stipulated by "Bonding Requirements". Besides states, mandatory standards and policies relating to energy efficiency which are contained in the state energy conservation plan issued in compliance with the Energy Policy and Conservation Act.
Cause of Condition	The Municipality internal control procedures failed to assure that contract includes all required clauses.
Effect of Condition	The Municipality is not in compliance with CFR 49, Part 41 and Sections 41.100 to 41.125 and CFR 49, Sections 18.36.
Recommendation	We recommend that the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2005

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	05-03 (Continued)
Program	Federal Transit-Formula Grant Program (CFDA. No. 20.507); U.S. Department of Transportation
Questioned Costs	None

Management Response and Corrective Action Plan	The Municipality's Management concurs with the finding. The Federal Program Director inform:
---	---

Findings (a) & (b): Written instructions were given to both the Plans & Permits Department and the Municipal Secretarial to ensure that any future construction plans with the aid of federal funds include the specifications delineated in the 49 CFR part 41 and 18.36 pertaining to Seismic Safety and Energy Efficiency and Conservation and that the appropriate clauses are included in all future contracts involving this type of construction.

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, 2005

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
02-05	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 05-01</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>Corrective action was taken.</p> <p>This finding was corrected substantially; the few instances for corrective action were included in the Management Letter.</p>
02-08	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 05-02</p>
02-10	14.871	<p><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></p> <p>Corrective action was taken.</p>

FORM **SF-SAC**
(5-2004)

U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET

**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

RETURN TO

**Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132**

PART I

GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)

<p>1. Fiscal period ending date for this submission</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:15%;">Month</td> <td style="width:15%;">Day</td> <td style="width:15%;">Year</td> <td colspan="3"></td> </tr> <tr> <td align="center">6</td> <td align="center">/ 30</td> <td align="center">2005</td> <td colspan="3">Fiscal Period End Dates Must Be In 2004, 2005, or 2006</td> </tr> </table>	Month	Day	Year				6	/ 30	2005	Fiscal Period End Dates Must Be In 2004, 2005, or 2006			<p>2. Type of Circular A-133 audit</p> <p>1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit</p>									
Month	Day	Year																				
6	/ 30	2005	Fiscal Period End Dates Must Be In 2004, 2005, or 2006																			
<p>3. Audit period covered</p> <p>1 <input checked="" type="checkbox"/> Annual 2 <input type="checkbox"/> Biennial 3 <input type="checkbox"/> Other — <input type="text"/> Months</p>	<p>4. FEDERAL GOVERNMENT USE ONLY Date received by Federal clearinghouse</p>																					
<p>5. Auditee Identification Numbers</p> <p>a. Primary Employer Identification Number (EIN)</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td>6</td><td>6</td><td>-</td><td>0</td><td>4</td><td>3</td><td>4</td><td>9</td><td>0</td><td>9</td> </tr> </table> <p>b. Are multiple EINs covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No</p> <p>c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.</p> <p>d. Data Universal Numbering System (DUNS) Number</p> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td>1</td><td>3</td><td>-</td><td>8</td><td>8</td><td>4</td><td>-</td><td>2</td><td>1</td><td>2</td><td>0</td> </tr> </table> <p>e. Are multiple DUNS covered in this report? 1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No</p> <p>f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.</p>		6	6	-	0	4	3	4	9	0	9	1	3	-	8	8	4	-	2	1	2	0
6	6	-	0	4	3	4	9	0	9													
1	3	-	8	8	4	-	2	1	2	0												

6. AUDITEE INFORMATION

a. Auditee name MUNICIPALITY OF CIDRA	
b. Auditee address (Number and street) APARTADO 729 City CIDRA	
State	ZIP + 4 Code
PR	0 0 7 3 9 -
c. Auditee contact Name BASILIO VILLA PASTOR	
Title FINANCE DIRECTOR	
d. Auditee contact telephone (787) 739 - 9444	
e. Auditee contact FAX (787) 739 - 5118	
f. Auditee contact E-mail	

7. AUDITOR INFORMATION (To be completed by auditor)

a. Auditor name LOPEZ VEGA, CPA, PSC	
b. Auditor address (Number and street) PARANA 1686, EL CEREZAL City SAN JUAN	
State	ZIP + 4 Code
PR	0 0 9 2 6 - 3 1 4 4
c. Auditor contact Name ANGEL ALFREDO LOPEZ VEGA	
Title PRESIDENT	
d. Auditor contact telephone (787) 777 - 8044	
e. Auditor contact FAX (787) 777 - 8045	
f. Auditor contact E-mail	

9. AUDITEE CERTIFICATION STATEMENT - This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

9. AUDITOR STATEMENT - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of certifying official	Date
	Month Day Year
	03 / 29 / 2006
Printed Name of certifying official	
Basilio A. Villa Pastor	
Printed Title of certifying official	
Director de Finanzas	

Signature of auditor	Date
	Month Day Year
	3 / 29 / 06

PART II FINANCIAL STATEMENTS (To be completed by auditor)

1. Type of audit report

Mark either: 1 Unqualified opinion **OR**
any combination of: 2 Qualified opinion 3 Adverse opinion 4 Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 Yes 2 No

3. Is a reportable condition disclosed? 1 Yes 2 No - SKIP to Item 5

4. Is any reportable condition reported as a material weakness? 1 Yes 2 No

5. Is a material noncompliance disclosed? 1 Yes 2 No

PART III FEDERAL PROGRAMS (To be completed by auditor)

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1 Yes 2 No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § __ .520(b))

3. Did the auditee qualify as a low-risk auditee? (§ __ .530) 1 Yes 2 No

4. Is a reportable condition disclosed for any major program? (§ __ .510(a)(1)) 1 Yes 2 No -SKIP to Item 6

5. Is any reportable condition reported as a material weakness? (§ __ .510(a)(1)) 1 Yes 2 No

6. Are any known questioned costs reported? (§ __ .510(a)(3) or (4)) 1 Yes 2 No

7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ __ .315(b)) 1 Yes 2 No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

- | | | | |
|--|--|---|--|
| 98 <input type="checkbox"/> U.S. Agency for International Development | 83 <input type="checkbox"/> Federal Emergency Management Agency | 43 <input type="checkbox"/> National Aeronautics and Space Administration | 96 <input type="checkbox"/> Social Security Administration |
| 10 <input type="checkbox"/> Agriculture | 39 <input type="checkbox"/> General Services Administration | 89 <input type="checkbox"/> National Archives and Records Administration | 19 <input type="checkbox"/> U.S. Department of State |
| 23 <input type="checkbox"/> Appalachian Regional Commission | 93 <input type="checkbox"/> Health and Human Services | 05 <input type="checkbox"/> National Endowment for the Arts | 20 <input type="checkbox"/> Transportation |
| 11 <input type="checkbox"/> Commerce | 97 <input type="checkbox"/> Homeland Security | 06 <input type="checkbox"/> National Endowment for the Humanities | 21 <input type="checkbox"/> Treasury |
| 94 <input type="checkbox"/> Corporation for National and Community Service | 14 <input checked="" type="checkbox"/> Housing and Urban Development | 07 <input type="checkbox"/> National Science Foundation | 82 <input type="checkbox"/> United States Information Agency |
| 12 <input type="checkbox"/> Defense | 03 <input type="checkbox"/> Institute of Museum and Library Services | 47 <input type="checkbox"/> Office of National Drug Control Policy | 64 <input type="checkbox"/> Veterans Affairs |
| 84 <input type="checkbox"/> Education | 15 <input type="checkbox"/> Interior | 09 <input type="checkbox"/> Small Business Administration | 00 <input type="checkbox"/> None |
| 81 <input type="checkbox"/> Energy | 16 <input type="checkbox"/> Justice | | <input type="checkbox"/> Other - Specify: |
| 66 <input type="checkbox"/> Environmental Protection Agency | 17 <input type="checkbox"/> Labor | | <input type="text"/> |
| | 09 <input type="checkbox"/> Legal Services Corporation | | <input type="text"/> |

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives
- and, if not marked above, the Federal cognizant agency

Count total number of boxes marked above and submit this number of reporting packages

FORM SF-SAC (5-2004)

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
Federal Agency Prefix ¹ (a)	Extension ² (b)					Major program (g)	If yes, type of audit report ³ (h)		
1	4	.871	SECTION 8 HOUSING CHOICE VOUCHER	\$ 1,098,536 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	CN	05-01,05-02
1	4	.218	COMMUNITY DEVELOPMENT BLOCK GRANTS-ENTITLEMENT GRANTS	\$ 1,315,842 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1	4	.221	LOCAL ECONOMIC	\$ 14,715 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	4	.248	COMMUNITY DEVELOPMENT BLOCK GRANTS-SECTION 108 LOAN GUARANTEE	\$ 3,391,295 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
1	4	.231	EMERGENCY SHELTER GRANTS PROGRAM	\$ 43,680 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	0	.420	RURAL SELF-HELP HOUSING TECHNICAL ASSISTANCE	\$ 69,641 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1	0	.411	RURAL HOUSING SITE LOANS AND SELF-HELP HOUSING LAND DEVELOPMENT LOANS	\$ 69,797 .00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8	3	.544	PUBLIC ASSISTANCE GRANT	\$ 68,048 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	7	.067	HOMELAND SECURITY GRANT PROGRAM	\$ 13,957 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
2	0	.507	FORMULA TRANSIT-FORMULA GRANTS	\$ 356,731 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	I	05-03
TOTAL FEDERAL AWARDS EXPENDED				\$ 6,668,717 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

- A. Activities allowed or unallowed
- B. Allowable costs/cost principles
- C. Cash management
- D. Davis - Bacon Act

- E. Eligibility
- F. Equipment and real property management
- G. Matching, level of effort, earmarking
- H. Period of availability of Federal funds

- I. Procurement and suspension and debarment
- J. Program income
- K. Real property acquisition and relocation assistance

- L. Reporting
- M. Subrecipient monitoring
- N. Special tests and provisions
- O. None
- P. Other

⁵ N/A for NONE

FORM SF-SAC (5-2004)

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR								10. AUDIT FINDINGS	
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
Federal Agency Prefix ¹ (a)	Extension ² (b)					Major program (g)	If yes, type of audit report ³ (h)		
2	0 .601	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	DRIVING PREVENTION INCENTIVE GRANTS	\$ 40,260 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9	3 .575	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD CARE AND DEVELOPMENT BLOCK GRANT	\$ 13,781 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8	4 .213	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	EVEN START - STATE EDUCATIONAL AGENCIES	\$ 138,126 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
4	5 .310	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LIBRARY SERVICES AND TECHNOLOGY GRANT	\$ 34,308 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
TOTAL FEDERAL AWARDS EXPENDED →				\$ 6,668,717 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)
³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.
⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § .510(a)) reported for each Federal program.

A. Activities allowed or unallowed	E. Eligibility	I. Procurement and suspension and debarment	L. Reporting
B. Allowable costs/cost principles	F. Equipment and real property management	J. Program income	M. Subrecipient monitoring
C. Cash management	G. Matching, level of effort, earmarking	K. Real property acquisition and relocation assistance	N. Special tests and provisions
D. Davis - Bacon Act	H. Period of availability of Federal funds		O. None

⁵ N/A for NONE

PART I Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

1	N / A					21	-					41	-				
2	-					22	-					42	-				
3	-					23	-					43	-				
4	-					24	-					44	-				
5	-					25	-					45	-				
6	-					26	-					46	-				
7	-					27	-					47	-				
8	-					28	-					48	-				
9	-					29	-					49	-				
10	-					30	-					50	-				
11	-					31	-					51	-				
12	-					32	-					52	-				
13	-					33	-					53	-				
14	-					34	-					54	-				
15	-					35	-					55	-				
16	-					36	-					56	-				
17	-					37	-					57	-				
18	-					38	-					58	-				
19	-					39	-					59	-				
20	-					40	-					60	-				

f. List the multiple DUNS covered in the report.

1	N / A					21	-										
2	-					22	-					22	-				
3	-					23	-					23	-				
4	-					24	-					24	-				
5	-					25	-					25	-				
6	-					26	-					26	-				
7	-					27	-					27	-				
8	-					28	-					28	-				
9	-					29	-					29	-				
10	-					30	-					30	-				
11	-					31	-					31	-				
12	-					32	-					32	-				
13	-					33	-					33	-				
14	-					34	-					34	-				
15	-					35	-					35	-				
16	-					36	-					36	-				
17	-					37	-					37	-				
18	-					38	-					38	-				
19	-					39	-					39	-				
20	-					40	-					40	-				

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.