

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CIDRA
AUDITORIA 2005-2006

30 DE JUNIO DE 2006

OFICINA DEL COMISIONADO
DE MUNICIPIOS MUNICIPALES

2007 MAR 30 AM 11:09

RECIBIDO
UNIDAD DE CORREO

Cod. H-07-6202

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

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

YEAR ENDED JUNE 30, 2006

07 MAR 30 PM 1:17

OFICINA
DE MUNICIPIOS MUNICIPALES
UNIDAD DE CORREO

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

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

YEAR ENDED JUNE 30, 2006

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>	
Report on internal control over financial reporting and on compliance and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	42-43

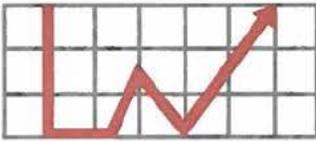
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

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

YEAR ENDED JUNE 30, 2006

CONTENTS - (CONTINUED)

	Page
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS (CONTINUED)</u>	
Report on compliance with requirements applicable to each major program and on internal control over compliance required by OMB Circular A- 133	44-46
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of findings and questioned cost	47-51
Summary schedule of prior year audit findings	52-53



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, 2006, 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, 2006, 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 8, 2006 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 8, 2006

Stamp No. 2106168 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2006

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, 2006. 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 2006 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 \$40,413,457, or fifty two percent (52%) of total assets.
- The Municipality's total Net Assets increased by \$5,066,419 or a 14% from the prior fiscal year-end balance.
- In the fund financial statements, the governmental activities revenue increased \$2,839,284 (or 12%) while governmental activities expenditures increase \$4,224,453 (or 14%).
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$800,014.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$1,003,300.
- The Municipality issued bonds amounting to \$2,000,000 to fund constructions projects.
- The Municipality issued bonds amounting to \$730,000 to fund equipments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

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, 2006

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 \$40,413,457 at the end of 2006, compared to \$35,347,038 at the end of the previous year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

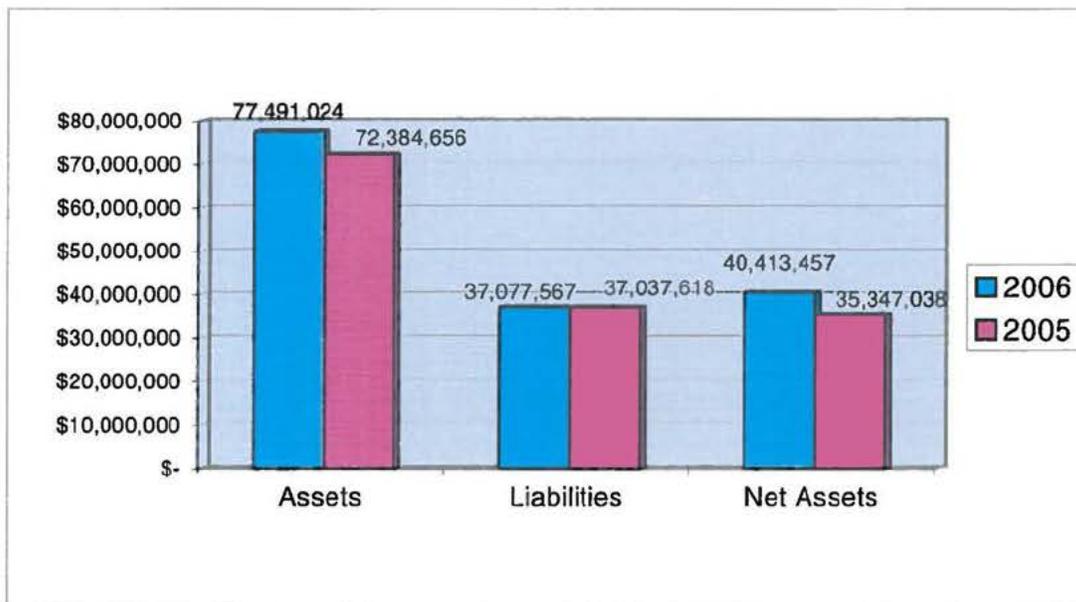
YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets (Continued)

Condensed Statement of Net Assets

	2006	2005	Change	%
Current assets	\$20,397,235	\$25,468,441	(\$5,071,206)	(20%)
Capital assets	30,050,093	29,084,766	965,327	3%
Other assets	27,043,696	17,831,449	9,212,247	52%
Total assets	77,491,024	72,384,656	5,106,368	7%
Current liabilities	9,897,036	11,818,065	(1,921,029)	(16%)
Noncurrent liabilities	27,180,531	25,219,553	1,960,978	8%
Total liabilities	37,077,567	37,037,618	39,949	-
Invested in capital assets, net of related debt	33,893,789	29,961,215	3,932,574	13%
Restricted	9,275,952	9,040,927	235,025	3%
Unrestricted	(2,756,284)	(3,655,104)	898,820	(25%)
Total net assets	\$40,413,457	\$35,347,038	\$5,066,419	14%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

Changes in Net Assets

The Municipality's net assets increase by \$5,066,419. Approximately 59 percent of the Municipality's total revenue came from taxes, while 37 percent resulted from grants and contributions, including federal aid. Charges for Services provided 2 percent of the total revenues. Interest and investment earnings 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)

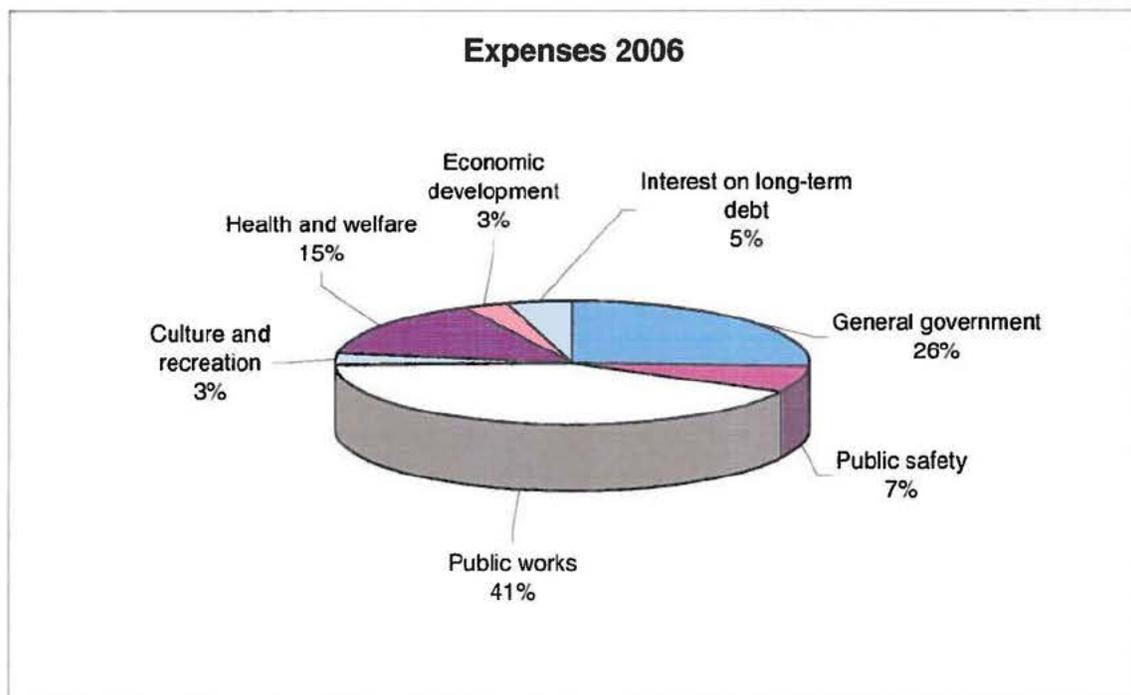
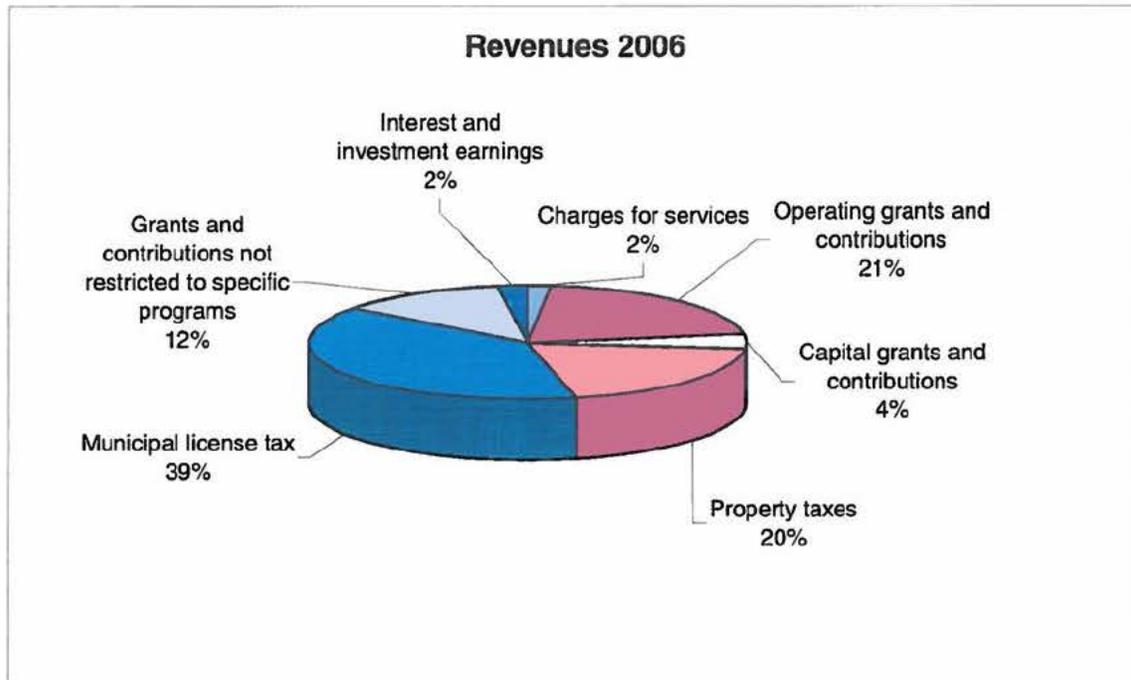
Condensed Statement of Activities	2006	2005	Change	%
Program revenues:				
Charges for services	\$470,092	\$315,113	\$154,979	49%
Operating grants and contributions	6,034,509	4,010,440	2,024,069	50%
Capital grants and contributions	1,209,924	2,387,933	(1,178,009)	(49%)
General revenues:				
Property taxes	5,742,173	5,075,749	666,424	13%
Municipal license tax	11,342,226	9,336,126	2,006,100	21%
Grants and contributions not restricted to specific programs	3,615,673	5,990,401	(2,374,728)	(40%)
Interest and investment earnings	654,580	437,860	216,720	49%
Miscellaneous		6,943	(6,943)	(100%)
Total revenues	29,069,177	27,560,565	1,508,612	5%
Expenses:				
General government	6,205,813	7,384,630	(1,178,817)	(16%)
Public safety	1,658,094	2,253,288	(595,194)	(26%)
Public works	10,012,401	5,198,370	4,814,031	93%
Culture and recreation	701,546	895,479	(193,933)	(22%)
Health and welfare	3,603,108	4,024,652	(421,544)	(10%)
Economic development	730,447	2,640	727,807	27568%
Other	6,683	105,095	(98,412)	(94%)
Interest on long-term debt	1,084,666	934,123	150,543	16%
Total expenses	24,002,758	20,798,277	3,204,481	15%
Change in net assets	5,066,419	6,762,288	(1,695,869)	(25%)
Net assets, beginning of year	35,347,038	28,584,750	6,762,288	24%
Net assets, end of year	\$40,413,457	\$35,347,038	\$5,066,419	14%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

Changes in Net Assets (Continued)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$10,230,415, a decrease of \$3,419,961 in comparison with the prior year. There are reservations of fund balance amounting to \$9,364,515. 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 (\$1,036,897, 2) to pay debt service (\$1,162,476), 3) to pay for capital projects (\$5,872,073) and 4) for other purposes (\$1,293,069).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2006, the general fund has a fund balance of \$954,463.

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, 2006, amounts to \$78,715,331 net of accumulated depreciation of \$21,621,542 leaving a net book value of \$57,093,789. 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, 2006

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 \$1,547,340.

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, 2006, the Municipality has \$6,456,654 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, 2006

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 2006-2007 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, 2006**

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 11,427,495
Cash with fiscal agent	8,062,173
Accounts receivable:	
Municipal license tax	44,250
Construction excise taxes	7,515
Intergovernmental	524,973
Other	61,045
Capital assets	
Land, improvements, and construction in progress	30,050,093
Other capital assets, net of depreciation	27,043,696
Total capital assets	<u>57,093,789</u>
 Total assets	 <u>77,221,240</u>
 Liabilities	
Accounts payable and accrued liabilities	1,276,118
Due to other governmental entities	159,586
Deferred revenues:	
Municipal license tax	8,244,375
Federal grant revenues	216,957
Noncurrent liabilities:	
Due within one year	1,614,721
Due in more than one year	25,565,810
Total liabilities	<u>37,077,567</u>
 Net Assets	
Invested in capital assets, net of related debt	33,893,789
Restricted for:	
Capital projects	6,456,654
Debt service	1,162,476
Federal and state grant funds	1,656,822
Unrestricted (deficit)	<u>(3,026,068)</u>
 Total net assets	 <u>\$ 40,143,673</u>

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, 2006

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	\$ 5,979,352	\$ 60,788	\$ 2,031,201		\$ (3,887,363)
Public safety	1,658,094	18,546			(1,639,548)
Public works	10,012,401		2,808,962	1,209,924	(5,993,515)
Health and welfare	3,603,108	382,210	1,194,346		(2,026,552)
Culture and recreation	701,546	8,548			(692,998)
Economic development	730,447				(730,447)
Interest on long-term debt	1,084,666				(1,084,666)
Other	6,683				(6,683)
Total governmental activities	\$ 23,776,297	\$ 470,092	\$ 6,034,509	\$ 1,209,924	\$ (16,061,772)
General revenues:					
Property taxes					5,472,389
Municipal license tax					11,342,226
Grants and contributions not restricted to specific programs					3,615,673
Interest and investment earnings					654,580
Total general revenues					21,084,868
Change in net assets					5,023,096
Net assets - beginning as restated					35,120,577
Net assets - ending					\$ 40,143,673

Commonwealth of Puerto Rico
Municipality of Cidra
Balance Sheet
Governmental Funds
June 30, 2006

	General Fund (01)	Special Revenue Fund (02) State & Federal	Capital Projects Fund (20 & 21) State & Federal	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 8,726,811	\$ 1,354,049	\$ 1,001,579	\$ 345,056	\$ 11,427,495
Cash with fiscal agent		1,116,712	5,782,985	1,162,476	8,062,173
Accounts receivable:					
Municipal license tax	44,250				44,250
Construction excise taxes	7,515				7,515
Intergovernmental		315,630	3,964	205,379	524,973
Other	61,045				61,045
Due from other funds	1,222,636	1,942		111,819	1,336,397
Total assets	\$ 10,062,257	\$ 2,788,333	\$ 6,788,528	\$ 1,824,730	\$ 21,463,848
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 701,761	\$ 70,969	\$ 228,087	\$ 275,301	\$ 1,276,118
Due to other governmental entities	159,586				159,586
Due to other funds	2,072	1,034,543	103,787	195,995	1,336,397
Deferred revenues:					
Municipal license tax	8,244,375				8,244,375
Federal grant revenues		25,999		190,958	216,957
Total liabilities	9,107,794	1,131,511	331,874	662,254	11,233,433
Fund balances:					
Reserved for:					
Encumbrances	88,563	363,753	584,581		1,036,897
Capital projects			5,872,073		5,872,073
Other purposes		1,293,069			1,293,069
Reserved reported in nonmajor funds:					
Debt service fund				1,162,476	1,162,476
Unreserved:					
Undesigned	865,900				865,900
Total fund balances	954,463	1,656,822	6,456,654	1,162,476	10,230,415
Total liabilities and fund balances	\$ 10,062,257	\$ 2,788,333	\$ 6,788,528	\$ 1,824,730	

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	57,093,789
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds	(27,180,531)
Net assets of governmental activities	\$ 40,143,673

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	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	\$ 4,228,935			\$ 1,243,454	\$ 5,472,389
Municipal license taxes	11,342,226				11,342,226
Licenses, permits and other local taxes	711,082				711,082
Intergovernmental	3,768,580	562,723	562,447		4,893,750
Rent of property	6,536				6,536
Fines and forfeitures	18,546				18,546
Interest	654,580				654,580
Federal grants		107,605		4,053,562	4,161,167
Miscellaneous	684,178	199,179	1,625	6,658	891,640
Total revenues	\$ 21,414,663	\$ 869,507	\$ 564,072	\$ 5,303,674	\$ 28,151,916
Expenditures					
Current:					
General government	8,964,814	764,007		524,317	10,253,138
Public safety	1,675,599				1,675,599
Public works	5,641,203	665,007	4,133,511	2,642,829	13,082,550
Health and welfare	2,342,953	210,015		985,679	3,538,647
Culture and recreation	625,409				625,409
Economic development	358,973	3,054	2,678,158		3,040,185
Other		5,653	984	46	6,683
Debt service:					
Principal				995,000	995,000
Interest				1,084,666	1,084,666
Total expenditures	19,608,951	1,647,736	6,812,653	6,232,537	34,301,877
Excess (deficiency) of revenues over (under) expenditures	1,805,712	(778,229)	(6,248,581)	(928,863)	(6,149,961)
Other financing sources (uses)					
Transfers in		62,219	345,440	917,079	1,324,738
Transfers out	(1,005,698)		(319,040)		(1,324,738)
Long-term debt issued		730,000	2,000,000		2,730,000
Total other financing sources (uses)	(1,005,698)	792,219	2,026,400	917,079	2,730,000
Net change in fund balances	800,014	13,990	(4,222,181)	(11,784)	(3,419,961)
Fund balance, beginning	154,449	1,642,832	10,678,835	1,174,260	13,650,376
Fund balance, ending	\$ 954,463	\$ 1,656,822	\$ 6,456,654	\$ 1,162,476	\$ 10,230,415

*Original
10/10/2007*

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, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (3,419,961)

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. 11,077,437

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 (1,547,340)

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. (46,517)

Change in landfill accrual 47,000

Some revenues reported in the Statement of Activities do not provide current financial resources in Governmental Funds. 647,477

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. (1,735,000)

Change in Net Assets of Governmental Activities \$ 5,023,096

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

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, 2006

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, as amended by the GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14". 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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006 amounted to approximately \$ 274,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$362,000 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	\$57,093,789
Bonds Payable	(16,150,000)
Note Payable	(7,050,000)
Advances from CRIM	(97,721)
Accrued compensated absences	(2,976,810)
Landfill closure and post closure care costs	(906,000)
	<hr/>
Net adjustment to reduce fund balance total governmental funds to arrive at net assets-governmental activities	\$29,913,258
	<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 \$8,700,000 in the general fund were fully collateralized at June 30, 2006. In the other governmental funds there were deposits with commercial banks of approximately \$345,000 that were fully collateralized, \$1,354,049 in the special revenue fund (02) and \$1,001,579 in the capital projects fund (20 & 21).

The deposits at GDB of approximately \$ 5,800,000 those are restricted principally for capital projects, and the \$ 1,162,476 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, 2006

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, 2006, 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, 2006, 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:

<u>Program Description</u>	<u>Amount</u>
Community Development Block Grants	\$ 23,088
Driving Prevention Incentive Grant	12,484
Even Start	133,973
Emergency Shelter Grants Program	5,728
Grants for Public Works & Economic Development	30,988
Public Assistance Grant	146,462
Self-Help Homeownership Opportunity Program	17,119
Hazard Mitigation Grant	10,380
Federal Transit-Formula Grant	6,603
Others	138,148
Total	<u>\$ 524,973</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

3. RECEIVABLES (CONTINUED):

c. Other- Other accounts receivable as of June 30, 2006 are as follows:

	<u>Governmental Type Funds</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Medical Plans	<u>\$ 61,045</u>	<u>-</u>	<u>\$ 61,045</u>
Total other receivables	<u>\$ 61,045</u>	<u>\$ -</u>	<u>\$ 61,045</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2006 are summarized as follows:

a. Due from/to other fund:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 1,222,636	\$ 2,072
Other Governmental Fund	111,819	195,995
Special Revenue Fund (02)	1,942	1,034,543
Capital Projects Funds (20 & 21)	<u>-</u>	<u>103,787</u>
Total	<u>\$ 1,336,397</u>	<u>\$ 1,336,397</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	Other Governmental	Transfer funds to cover debt services payments	\$598,039
General Fund	Special Revenue Fund (02)	Transfer of funds for electric improvements	62,219
General Fund	Capital Projects Fund (20 & 21)	Transfer of funds for Capital Outlays	345,440
Capital Projects Fund (21)	Other Governmental	Transfer funds to cover debt services payments	<u>319,040</u>
Total			<u>\$1,324,738</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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 2006, 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, 2005	Additions	Retirements/ Reclassifications	Balance June 30, 2006
Capital asset, not being depreciated:				
Construction in progress	\$ 7,766,070	\$6,057,841	(\$5,929,112)	\$ 7,894,799
Land	21,318,696	847,302	(10,704)	22,155,294
Total capital assets not being depreciated	<u>\$29,084,766</u>	<u>\$6,905,143</u>	<u>(\$5,939,816)</u>	<u>\$30,050,093</u>
Capital assets, being depreciated:				
Buildings and building improvements	\$11,837,490	\$8,411,272	(\$15,280)	\$20,233,482
Infrastructure and Infrastructure improvements	16,814,227	1,974,177	(-)	18,788,404
Equipment	4,261,823	121,751	(258,031)	4,125,343
Works of art	185	1,112	(-)	1,297
Vehicles	5,082,037	307,867	126,608	5,516,512
Total capital assets being depreciated	<u>\$37,995,762</u>	<u>\$ 10,816,179</u>	<u>(\$146,703)</u>	<u>\$48,665,238</u>
Less accumulated depreciation for:				
Buildings and building improvements	(\$4,974,521)	(\$395,973)	(\$44,583)	(\$5,415,077)
Infrastructure and Infrastructure improvements	(7,535,281)	(432,819)	-	(7,968,100)
Equipment	(3,419,261)	(304,664)	189,517	(3,534,408)
Works of art	(185)	(19)	-	(204)
Vehicles	(4,235,065)	(413,865)	(54,823)	(4,703,753)
Total accumulated depreciation	<u>(\$20,164,313)</u>	<u>(\$ 1,547,340)</u>	<u>\$ 90,111</u>	<u>(\$21,621,542)</u>
Total capital assets being depreciated, net	<u>\$17,831,449</u>	<u>9,268,839</u>	<u>(\$56,592)</u>	<u>\$27,043,696</u>
Governmental activities capital assets, net	<u><u>\$46,916,215</u></u>	<u><u>\$16,173,982</u></u>	<u><u>(\$5,996,408)</u></u>	<u><u>\$57,093,789</u></u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

5. CAPITAL ASSETS (CONTINUED):

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

Governmental activities:

General government	\$ 180,336
Public safety	38,179
Public works	694,434
Culture and recreation	183,563
Health and welfare	66,743
Community development	<u>384,085</u>
Total depreciation expense-governmental activities	<u>\$1,547,340</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 collections exceeded advances by \$269,784. In the governmental funds, the entire receivable has been offset by deferred revenue since the excess was not available to pay liabilities of the current period. In the government-wide financial statements, the entire receivable is recognized as revenue.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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	\$ 442
Retirement System Administration	122,329
Department of Labor	2,517
Puerto Rico Telephone	4,802
Puerto Rico Aqueduct and Sewer Authority	8,504
Commonwealth of Puerto Rico Employee Association	<u>20,992</u>
Total	<u>\$ 159,586</u>

8. DEFERRED REVENUES

- a. **Municipal License Tax-** The deferred revenues of approximately \$8,244,000 in the general fund relates to municipal license tax collected in fiscal year 2005-06 that will be earned in fiscal year 2006-07.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

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 \$ 190,958

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds Payable	\$16,310,000	\$ 730,000	\$ (890,000)	\$16,150,000	\$ 1,000,000
Notes Payable	5,100,000	2,000,000	(50,000)	7,050,000	205,000
Advances from CRIM	269,182		(171,461)	97,721	97,721
Compensated Absences	2,758,832	217,978		2,976,810	265,000
Landfill obligation	953,000		(47,000)	906,000	47,000
Total	<u>\$25,391,014</u>	<u>\$2,947,978</u>	<u>\$(1,158,461)</u>	<u>\$27,180,531</u>	<u>\$1,614,721</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 \$730,000. Bonds payable outstanding at June 30, 2006 are as follows:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

9. LONG-TERM LIABILITIES (CONTINUED):

Type of bonds	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2006
1992 Series	7-1-06	\$ 1,530,000	3.2% to 6.3%	\$ 180,000
1996 Series	7-1-21	605,000	4.8% to 6.7%	505,000
1997 Series	7-1-06	1,435,000	4.8% to 6.7%	200,000
2000 Series	7-1-24	260,000	2.7% to 7.8%	230,000
2000 Series	7-1-24	710,000	2.7% to 7.8%	640,000
2000 Series	7-1-25	6,440,000	2.7% to 7.8%	5,920,000
2001 Series	7-1-06	430,000	5.0% to 8.0%	100,000
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%	550,000
2004 Series	7-1-30	4,020,000	5.00%	4,020,000
2004 Series	7-1-15	905,000	5.00%	835,000
2005 Series	7-1-30	435,000	4.3% to 5.0%	425,000
2005 Series	7-1-21	730,000	4.3% to 5.0%	730,000
Total general obligation bonds				<u>\$16,150,000</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
2007	\$ 1,000,000	\$ 820,661
2008	565,000	784,913
2009	600,000	753,884
2010	630,000	722,869
2011	670,000	689,647
2012-2016	3,250,000	2,936,607
2017-2021	3,940,000	2,040,893
2022-2026	4,300,000	884,610
2027-2031	1,195,000	120,462
Total	<u>\$ 16,150,000</u>	<u>\$ 9,754,546</u>

- c. **Compensated absences-** The government-wide statement of net assets includes approximately \$ 2,976,000 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, 2006

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 \$ 906,000 as the Municipality's estimated current cost for landfill post-closure costs as of June 30, 2006. The annual estimate of post closure costs has been assessed approximately to be \$ 47,000 for a period of approximately 18 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, 2006, was as follows:

Balance at July 1, 2005	\$ 7,100,000
Loan Proceeds	-
Payments	<u>(50,000)</u>
Balance at June 30, 2006	<u>\$ 7,050,000</u>

Note payable at June 30, 2006 is as follows:

Description	Maturity Date	Original Amount	Range of Interest rates	Balance June 30, 2006
Section 108 Loan	8-1-24	\$1,895,000	Variable	\$ 2,000,000
Section 108 Loan	8-1-22	5,100,000	Variable	<u>5,050,000</u>
Note Payable				<u>\$ 7,050,000</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2006

9. LONG-TERM LIABILITIES (CONTINUED):

The future annual requirements for the amortization of notes payable outstanding as of June 30, 2006, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 205,000	289,224
2008	230,000	285,416
2009	255,000	280,154
2010	280,000	273,374
2011	305,000	265,024
2012-2016	1,900,000	1,143,381
2017-2021	2,525,000	685,312
2022-2026	<u>1,350,000</u>	<u>144,190</u>
Total	<u>\$ 7,050,000</u>	<u>\$3,366,075</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, 2006

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, 2006 recorded as pension expenditures were approximately \$ 632,000. This amount represents 100% of the required contribution for the fiscal year ended June 30, 2006.

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, 2006, 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, 2006

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, 2006, 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.

12. SUBSEQUENT EVENTS

On November 13, 2006, the Municipal Legislature approved the Ordinance 20, 2006-2007, which established effective on November 15, 2006 a sales tax of 1.5 %.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

BUDGETARY COMPARISON SCHEDULE- GENERAL FUND

YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$3,647,603	\$ 4,224,644	\$ 4,228,935	\$ 4,291
Municipal license tax	10,500,000	11,341,907	11,342,226	319
Licenses, permits and other local taxes	620,000	694,819	711,082	16,263
Intergovernmental	3,982,097	3,768,579	3,768,579	-
Rent of property	4,200	5,200	6,536	1,336
Fines and forfeitures	70,000	10,989	18,546	7,557
Interest	325,000	574,863	654,581	79,717
Miscellaneous	<u>427,000</u>	<u>615,971</u>	<u>684,178</u>	<u>68,208</u>
Total revenues	<u>19,575,900</u>	<u>21,236,972</u>	<u>21,414,663</u>	<u>177,691</u>
EXPENDITURES AND OTHER FINANCING USES:				
Current:				
General government	8,469,335	9,326,267	8,975,976	350,291
Public safety	1,666,386	1,683,317	1,675,194	8,123
Public works	5,961,317	5,455,908	5,435,609	20,299
Health and welfare	2,351,669	2,387,439	2,333,134	54,305
Culture and recreation	727,191	655,535	676,779	28,756
Economic development	279,036	360,620	358,973	1,647
Education	120,966			
Operating transfer to other funds		<u>1,367,886</u>	<u>1,005,698</u>	<u>362,188</u>
Total expenditures and other financing uses	<u>19,575,900</u>	<u>21,236,972</u>	<u>20,411,363</u>	<u>825,609</u>
EXCESS OF REVENUES OVER EXPENDITURES			<u>\$ 1,003,300</u>	<u>\$ 1,003,300</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 21,414,663
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>\$ 21,414,663</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$20,411,363
Differences-budget to GAAP:				
Nonbudgeted expenditures				163,362
Prior year encumbrances recorded as current year expenditures for GAAP basis				128,487
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(88,563)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 20,614,649</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND

YEAR ENDED JUNE 30, 2006

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, 2006 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2006.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

<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		\$ 1,066,087
Community Development Block Grants- Entitlement Grants	14.218	B-04-MC-72-0021 B-05-MC-72-0021	1,217,337
Local Economic Community Development Block Grants-	14.221		31,114
Section 108 Loan Guarantee	14.248		2,678,087
Pass-through Commonwealth of Puerto Rico Department of the Family:			
Emergency Shelter Grants Program	14.231	ESG-04-DC-720001	46,598
Self-Help Homeownership Opportunity	14.247		33,471
Total U.S. Department of Housing and Urban Development			<u>5,072,694</u>
U.S DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Rural Housing Site Loans and Self-Help Housing Land Development Loans	10.411		5,026
Total U.S. Department of Agriculture			<u>5,026</u>
U.S DEPARTMENT OF HOMELAND SECURITY:			
Pass-through Commonwealth of Puerto Rico - Governor Authorized Representative (GAR):			
Public Assistance Grant	83.544	DR-1552	184,553
Hazard Mitigation Grant	83.548	GAR-DR-1501-PR0022 & 0023	13,698
Total U.S. Department of Homeland Security			<u>198,251</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS- (CONTINUED)

YEAR ENDED JUNE 30, 2006

<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			
Federal Transit: Formula Grants	20.507		\$ 90,709
Pass-through the Commonwealth of Puerto Rico Highway Safety and Drunk			
Driving Prevention Incentive Grant	20.601	06-03-08	<u>12,484</u>
Total U.S. Department of Transportation			<u>103,193</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	2005-2006-093	<u>11,685</u>
Total U.S. Department of Health and Human Services			<u>11,685</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	2006-AF-0167	142,386
Pass-through the Commonwealth of Puerto Rico-Department of Education			
Library Services and Technology Grant	N/A		<u>13,865</u>
Total U.S. Department of Education			<u>156,251</u>
U.S. DEPARTMENT OF COMMERCE:			
Direct Program:			
Grants for Public Works and Economic Development	11.300		<u>531,725</u>
Total U.S. Department of Commerce			<u>531,725</u>
Total Expenditures of Federal Awards			<u>\$ 6,078,825</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, 2006

A. BASIS OF PRESENTATION:

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

B. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

Description	Special Revenue (02)	Capital Projects Fund (20 & 21)	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 456,383	\$2,944,355	\$2,678,087	\$ 6,078,825
Non federal programs expenditures	<u>1,191,353</u>	<u>3,868,298</u>	<u>3,554,450</u>	<u>8,614,101</u>
Total expenditures in the basic financial statements	<u>\$1,647,736</u>	<u>\$6,812,653</u>	<u>\$6,232,537</u>	<u>\$14,692,926</u>



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

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

**To the Honorable Mayor
and 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** as of and for the year ended June 30, 2006, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated November 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Cidra's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matter involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect **Municipality of Cidra's** ability to initiate record, process and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items **06-01** through **06-02**.

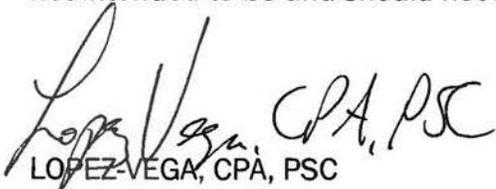
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other 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 8, 2006.

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

Compliance

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

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


LOPEZ-VEGA, CPA, PSC

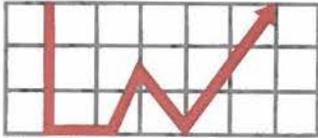
San Juan, Puerto Rico
November 8, 2006

Stamp No. 2106169 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



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

Member of:

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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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, 2006. 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, 2006. 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 06-01 through 06-02.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY 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 **06-01** through **06-02**.

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 8, 2006.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY 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 8, 2006

Stamp No. 2195943 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

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
11.300	Grants for Public Works and Economic Development
14.218	Community Development Block Grant – Entitlement Grants
14.871	Section 8 Housing Choice Voucher
Dollar threshold used to distinguish between Type A and Type B programs \$ 300,000	
Auditee qualified as low-risk auditee?	Yes <u>X</u> No _____

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	06-01
Program	Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
Requirement	Allowable Activities-Housekeeper Activities
Statement of Condition	<p>We performed a housekeeper activities test of ten (10) participant's files and found the following exceptions:</p> <ul style="list-style-type: none">a) In nine (9) participant's files, we did not find evidence that demonstrate if the program staff visited at least two times per month the participant housing unit to ensure the quality of services. In one (1) of these cases, only three (3) visits were found for a period of six months;b) In three (3) participant's files, the health certificates were expired;c) In one (1) participant's files, there was no evidence of the approval form or refuse form (MACSH-FM-005-A or MAC-SH-FM-005B);d) In one (1) participant's files, there was no evidence of the evaluation of housekeeper performance. Form (MAC-SH-FM-007). <p>In addition, the program did not contemplate in the agreement; between participant and housekeeper the tasks that will realize the housekeeper.</p>
Criteria	Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Municipality has an operational guide that includes all procedures and program's requirements for housekeeper activities.
Cause of Condition	The Municipality's controls and procedures failed to assure that the participant's files included all the required documents to comply with the program requirements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	06-01 (Continued)
Program	Community Development Block Grant - Entitlement Grant (CFDA. No. 14.218); U.S. Department of Housing and Urban Development
Effect of Condition	The Municipality is not in noncompliance with Code of Federal Regulations 24, Section 570.484 and with the operational guide.
Recommendation	We recommended management to follow the procedures established in the operational guide title "Manual Operacional Programa Auxiliares del Hogar", including the use of the forms included on it and to assure that the participant's files included all the required documents to comply with the program requirements.
Questioned Costs	None
Management Response and Corrective Action Plan	<p>This finding has been corrected. Procedures for quality control visits for the program "Auxiliares del Hogar". The director for the program has been visiting clients to determine level of service. These visits unfortunately were not documented during fiscal year 2005-2006. These quality control visits will be documented and procedures incorporated into the "Auxiliares del Hogar" Manual of Operations. Copy of new quality control form and updated Operational Manual will be forwarded to HUD.</p> <p>Responsible Person: Iris Otero Administrator "Salud en el Hogar"</p> <p>George Pereira Federal Programs Department Director</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	06-02
Program	Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	<p>We realized Cash Management Test for Section 8 Housing Choice Voucher Program and after our procedures, we found that the Municipality maintained during the current fiscal year average cash balance in books of approximately \$208,317.69. At June 30, 2006, the cash balance in books was \$218,434.33. In addition, we could not exam which is the operating reserve, the overpayment due to HUD or remaining balance because the program did not maintain accounting records to determine that same one.</p> <p>In addition, we noted that during the year the program collected move- in portability and the administrative fee income related to these portability's. The Municipality did not reported in the operating receipts section for the year ended June 30, 2006.</p>
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 cash management procedures failed to assure that funds requested and received from the federal agency is only for immediate needs and that no overpayment to HUD must determined at year end. In addition, the condition could be cause by cumulative effect of accounting errors in the past years and current years; errors such as reporting portability's administered by the program as HAP expenditures in the year end settlements, non recognition of portability's administrative fee earned in the year end settlements, non recognitions of recoveries from tenants and owners in the year end settlements, non recognition of interest earned on operation reserve in the year end settlement, etc.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference 06-02 (Continued)

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

Effect of Condition The Municipality did not comply with the OMB Common Rules, Subpart C, Section 85.20, (b) (7).

Recommendation We recommend that management should strengthen it's procedures to 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. In the case that the program identifies a possible overpayment at year end, the program staff must consider submitting a revised requisition (Form-52663) to the federal agency to reduce the monthly advances received.

Also, the management should instruct the accountant to follow financial management procedures established in the Voucher Program Guidebook (7420.10G), Chapter 20, Financial Management.

Questioned Costs None

Management Response and Corrective Action Plan The program concurs with the finding and is going to take in consideration the auditor recommendations. The program accountant will review the accounting records for 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. In the case that the program identifies a possible overpayment at year end, the program staff must consider submitting a revised requisition (Form-52663) to the federal agency to reduce the monthly advances received.

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, 2002

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
05-03	20.507	<p><u>The Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.</u></p> <p>Corrective action was taken.</p>
04-01	14.218	<p><u>The Municipality staff should obtain training for manage the program Integrated Disbursement and Information System (IDIS) from the HUD Caribbean Office, external consultants or in-house trainings using the IDIS Reference Manual, which includes explanations about how to runs reports and extracts data from IDIS.</u></p> <p>Corrective action was taken.</p>
02-08	14.871	<p><u>The Municipality should establish the following procedures: The admission procedures must be established in the administrative plan. Also, we recommend the management to establish proper internal control so that the waiting list includes all information as required by Federal Regulations. This control must permit proper tracing of participants selected in the waiting list in order to assure the selection from the top of the waiting list or special admission.</u></p> <p>Corrective action was taken.</p>
02-05	14.871	<p><u>The Municipality should strengthen it's procedures to 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. In the case that the program identifies a possible overpayment at year end, the program staff must consider submitting a revised requisition (Form-52663) to the federal agency to reduce the monthly advances received.</u></p> <p>No corrective action was taken. See current year finding number 06-02</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</u></p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - (CONTINUED)

YEAR ENDED JUNE 30, 2006

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>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>

07 MAR 30 PM 1:17

OFFICE OF MANAGEMENT
ENTERENSON