

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES

AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL

AREA DE ARCHIVO DIGITAL

MUNICIPIO DE CIDRA
AUDITORIA 2006-2007

30 DE JUNIO DE 2007

COMPTROLLER OF THE TREASURY
MUNICIPALITY OF CIDRA
MAR 21 PM 1:45
RECEIVED

Order 5-1008

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, 2007

COMPTROLLER OF THE TREASURY
MUNICIPALITY OF CIDRA
MAR 31 PM 2:35

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, 2007

CONTENTS

	Page
<u>BASIC FINANCIAL STATEMENTS</u>	
Independent Auditors' Report	1-2
Required Supplementary Information (Part 1) Management's Discussion and Analysis	3-12
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Notes to Basic Financial Statements	18-39
<u>SUPPLEMENTARY INFORMATION</u>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	40
Notes to Budgetary Comparison Schedule-General Fund	41
Schedule of expenditures of federal awards	42-44
Notes to the schedule of expenditures of federal awards	45
<u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	46-47

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, 2007

CONTENTS

	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 in accordance with OMB Circular A-133	48-50
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of findings and questioned cost	51-55
Summary schedule of prior year audit findings	56-57



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 (Municipality)**, as of and for the year ended June 30, 2007, which collectively comprise the **Municipality's** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **Municipality's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

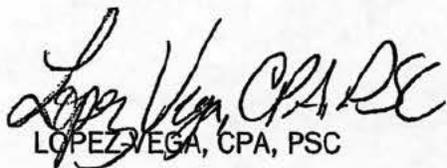
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cidra, Puerto Rico**, as of June 30, 2007, and 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2007, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 and the Budgetary Comparison Schedule-General Fund on pages 40 and 41 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.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 6, 2007

Stamp No. 2196065 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, 2007

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, 2007. 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. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2006. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

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

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2007 deserve special mention:

1. Total assets of the Municipality amounted to \$91,709,074 which represents an increase of 18% compared to prior fiscal year.
2. At the end of fiscal year 2007, total liabilities amounted to \$45,721,177. Out of said amount, \$31,846,794 corresponded to long-term liabilities of which \$27,350,000 represented the outstanding balance of bonds issued. The Municipality continued to meet all debt service requirements, most of which was paid from self generated revenues.
3. Total net assets of the Municipality amounted to \$45,987,897 which represents an increase of 14% compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$33,092,640, derived from the following sources: \$406,457 charges for services; \$3,431,199 from operating grants and contributions; \$2,352,991 from capital grants and contributions obtained from other sources, and \$26,901,993 from general revenues available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

FINANCIAL HIGHLIGHTS (CONTINUED)

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$27,518,200.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Assets figure by \$5,574,440.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$14,239,976.
8. In the fund financial statements, the governmental activities revenue increased \$4,234,566 (or 15%) while governmental activities expenditures decreased \$258,135 (or 1%).
9. As the end of the current fiscal year the Municipality's general fund balance amounted to \$1,852,158, compared to a fund balance of \$954,463 in the prior fiscal year.
10. The actual General Fund budgetary activities resulted in a favorable balance of \$1,847,491.
11. The Municipality issued bonds amounting to \$5,595,000 to fund constructions projects.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2007. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

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, 2007

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 \$45,987,897 at the end of 2007, compared to \$40,413,457 at the end of the previous year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

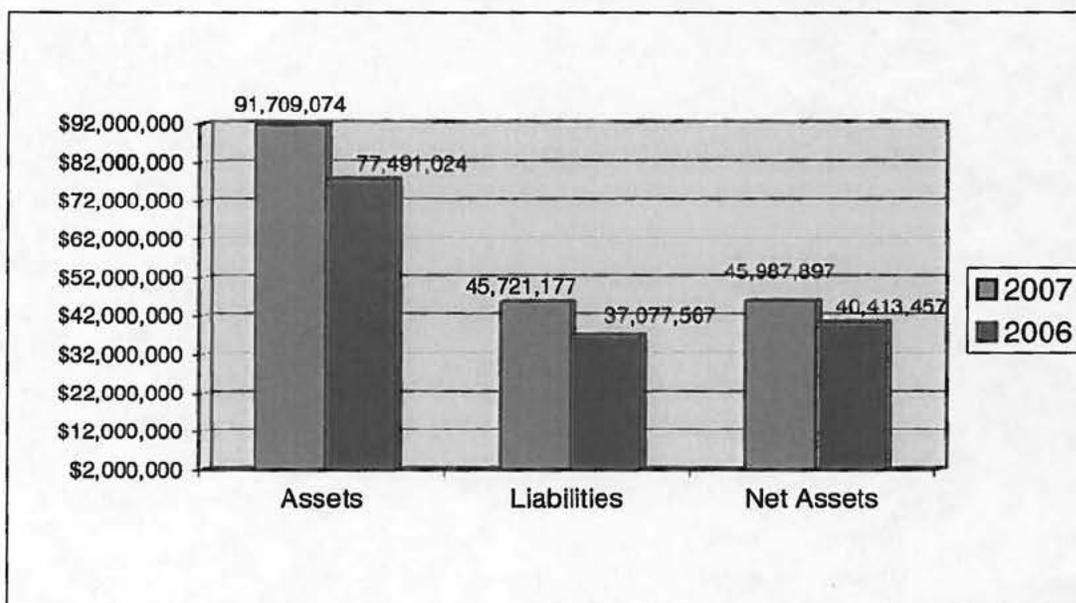
YEAR ENDED JUNE 30, 2007

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Net Assets (Continued)

Condensed Statement of Net

Assets	2007	2006	Change	%
Current assets	\$28,202,507	\$20,397,235	\$7,805,272	38%
Capital assets	32,934,263	30,050,093	2,884,170	10%
Others assets	30,572,304	27,043,696	3,528,608	13%
Total assets	91,709,074	77,491,024	14,218,050	18%
Current liabilities	13,874,383	9,897,036	3,977,347	40%
Noncurrent liabilities	31,846,794	27,180,531	4,666,263	17%
Total liabilities	45,721,177	37,077,567	8,643,610	23%
Invested in capital assets, net of related debt	36,156,567	33,893,789	2,262,778	7%
Restricted	12,294,212	9,275,952	3,018,260	33%
Unrestricted	(2,462,882)	(2,756,284)	293,402	(11%)
Total net assets	\$45,987,897	\$40,413,457	\$5,574,440	14%



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

CHANGES IN NET ASSETS

The Municipality's net assets increase by \$ 5,474,440. Approximately 61 percent of the Municipality's total revenue came from taxes, while 35 percent resulted from grants and contributions, including federal aid. Charges for Services provided 1 percent of the total revenues. Interest and investment earnings and miscellaneous provided 3 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.

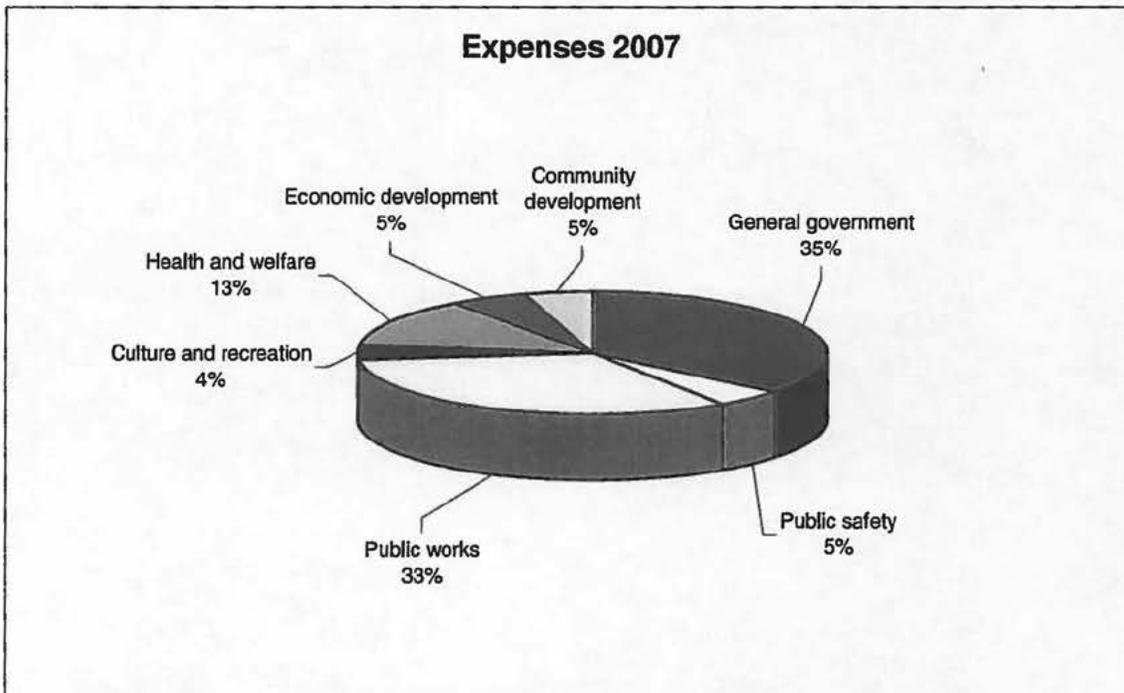
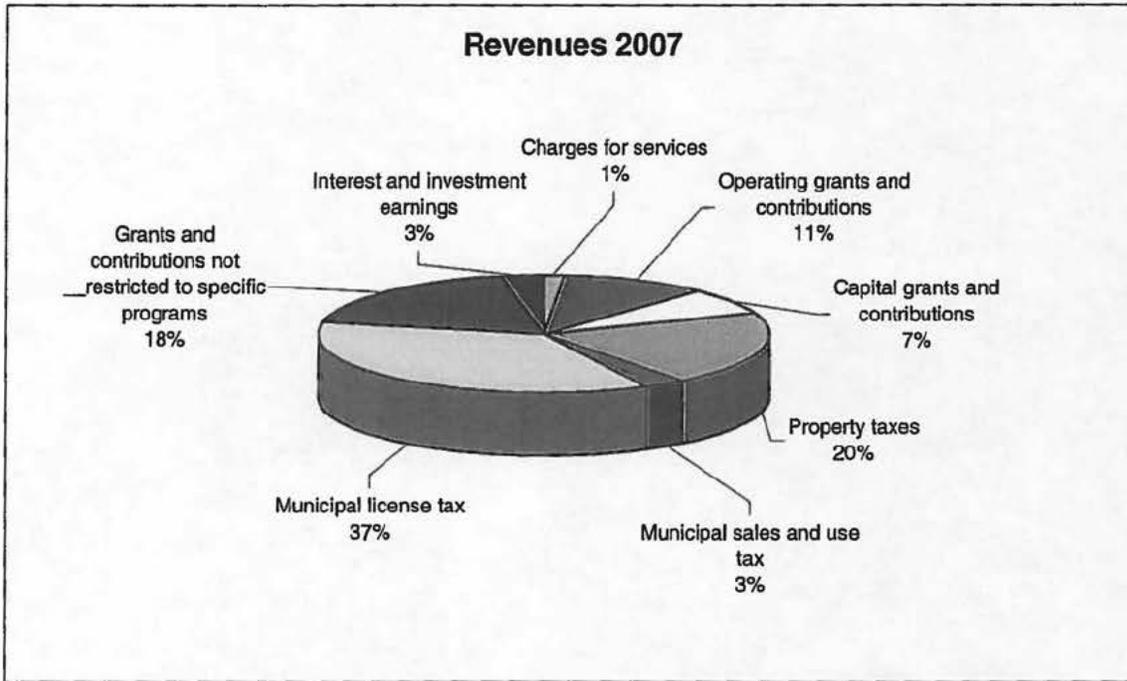
Condensed Statement of Activities	2007	2006	Change	%
Program revenues:				
Charges for services	\$406,457	\$470,092	(\$63,635)	(14%)
Operating grants and contributions	3,431,199	6,034,509	(2,603,310)	(43%)
Capital grants and contributions	2,352,991	1,209,924	1,143,067	94%
General revenues:				
Property taxes	6,580,803	5,742,173	838,630	15%
Municipal sales and use tax	1,036,561		1,036,561	
Municipal license tax	11,674,151	11,342,226	331,925	3%
Grants and contributions not restricted to specific programs	5,982,016	3,615,673	2,366,343	65%
Interest and investment earnings	1,022,635	654,580	368,055	56%
Miscellaneous	605,827		605,827	100%
Total revenues	33,092,640	29,069,177	4,023,463	14%
Expenses:				
General government	9,507,721	6,205,813	3,301,908	53%
Public safety	1,241,041	1,658,094	(417,053)	(25%)
Public works	8,662,631	10,012,401	(1,349,770)	(13%)
Culture and recreation	1,051,950	701,546	350,404	50%
Health and welfare	3,363,082	3,603,108	(240,026)	(7%)
Economic development	1,394,160	730,447	663,713	91%
Community development	1,251,580		1,251,580	
Education	111,873	6,683	105,190	1574%
Interest on long-term debt	934,162	1,084,666	(150,504)	(14%)
Total expenses	27,518,200	24,002,758	3,515,442	15%
Change in net assets	5,574,440	5,066,419	508,021	10%
Net assets, beginning of year	40,413,457	35,347,038	5,066,419	14%
Net assets, end of year	\$45,987,897	\$40,413,457	\$5,574,440	14%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

CHANGES IN NET ASSETS (CONTINUED)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT AND DISCUSSION ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2007

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 \$14,239,976 an increase of \$4,009,561 in comparison with the prior year. There are reservations of fund balance amounting to \$12,801,251. 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 (\$974,120), 2) to pay debt service (\$1,681,420), 3) to pay for capital projects (\$5,787,938) and 4) for other purposes (\$4,357,773).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2007, the general fund has a fund balance of \$1,852,158.

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, 2007, amounts to \$85,999,071, net of accumulated depreciation of \$ 22,892,148, leaving a net book value of \$63,506,567. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

MANAGEMENT AND DISCUSSION ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

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 11% in terms of net book value. Depreciation charges for the year totaled \$ 1,727,841.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2007, the Municipality has 6,786,597 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 municipal bonds and

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2007

CAPITAL ASSETS AND DEBT ADMINISTRATION- (CONTINUED)

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 (5%) percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

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

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer.

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 18,181,525
Cash with fiscal agent	9,524,402
Accounts receivable:	
Municipal license tax	1,138
Intergovernmental	139,323
Others	356,119
Capital assets	
Land, improvements and construction in progress	32,934,263
Buildings, infrastructure and other capital assets, net of depreciation	30,572,304
Total capital assets	<u>63,506,567</u>
Total assets	<u>91,709,074</u>
Liabilities	
Accounts payable and accrued liabilities	2,101,710
Due to other governmental entities	180,070
Deferred revenues:	
Municipal license tax	11,430,133
Federal grant revenues	162,470
Noncurrent liabilities:	
Due within one year	1,349,663
Due in more than one year	30,497,131
Total liabilities	<u>45,721,177</u>
Net Assets	
Invested in capital assets, net of related debt	36,156,567
Restricted for:	
Capital projects	7,944,049
Debt service	1,683,292
Other purposes	2,666,871
Unrestricted (deficit)	<u>(2,462,882)</u>
Total net assets	<u>\$ 45,987,897</u>

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Activities
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 9,507,721	\$ 156,261	\$ 663,487		\$ (8,687,973)
Public safety	1,241,041	245,146	72,380		(923,515)
Public works	8,662,631		1,372,984	2,352,991	(4,936,656)
Health and welfare	3,363,082		1,262,031		(2,101,051)
Culture and recreation	1,051,950	5,050	60,317		(986,583)
Economic development	1,394,160				(1,394,160)
Community development	1,251,580				(1,251,580)
Education	111,873				(111,873)
Interest on long-term debt	934,162				(934,162)
Total governmental activities	\$ 27,518,200	\$ 406,457	\$ 3,431,199	\$ 2,352,991	\$ (21,327,553)
General revenues:					
Property taxes					6,580,803
Municipal sales and use tax					1,036,561
Municipal license tax					11,674,151
Grants and contributions not restricted to specific programs					5,982,016
Interest and investment earnings					1,022,635
Miscellaneous					605,827
Total general revenues					26,901,993
Change in net assets					5,574,440
Net assets - beginning					40,413,457
Net assets - ending					\$ 45,987,897

Commonwealth of Puerto Rico
Municipality of Cidra
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund -(01)	Special Revenue Fund-(02) State & Federal Grants	Capital Projects Fund-(20 & 21) State & Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 13,897,700	\$ 2,313,524	\$ 1,676,101	\$ 294,200	\$ 18,181,525
Cash with fiscal agent		1,056,385	6,786,597	1,681,420	9,524,402
Accounts receivable:					
Municipal licenses tax	1,138				1,138
Intergovernmental	88,148	61,938		77,385	227,471
Other	41,777		26,266	199,928	267,971
Due from other funds	1,069,826	835	43,665	106,600	1,220,926
Total assets	\$ 15,098,589	\$ 3,432,682	\$ 8,532,629	\$ 2,359,533	\$ 29,423,433
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 1,547,115	\$ 40,787	238,354	\$ 275,454	\$ 2,101,710
Due to other governmental entities	180,070				180,070
Due to other funds	965	725,024	350,226	144,711	1,220,926
Deferred revenues:					
Municipal license tax	11,430,133				11,430,133
Intergovernmental	88,148				88,148
Federal grant revenues				162,470	162,470
Total liabilities	13,246,431	765,811	588,580	582,635	15,183,457
Fund balances:					
Reserved for:					
Encumbrances	413,433	560,687			974,120
Capital projects			5,787,938		5,787,938
Other purposes		2,106,184	2,156,111	95,478	4,357,773
Reserved reported in nonmajor funds:					
Debt service fund				1,681,420	1,681,420
Unreserved:					
Undesigned	1,438,725				1,438,725
Total fund balances	1,852,158	2,666,871	7,944,049	1,776,898	14,239,976
Total liabilities and fund balances	\$ 15,098,589	\$ 3,432,682	\$ 8,532,629	\$ 2,359,533	

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	63,506,567
Accrual basis of accounting accounts receivable recognized in government-wide financial statements	88,148
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds	<u>(31,846,794)</u>
Net assets of governmental activities	\$ 45,987,897

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General Fund -(01)	Special Revenue Fund-(02) State & Federal Grants	Capital Projects Fund-(20 & 21) State & Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 4,686,509			\$ 1,806,146	\$ 6,492,655
Municipal sales and use tax		1,036,561			1,036,561
Municipal license taxes	11,674,151				11,674,151
Licenses, permits and other local taxes	1,268,127				1,268,127
Charges for services	19,197	137,064			156,261
Intergovernmental	4,035,286	855,729	2,373,622		7,264,637
Fines and forfeitures	245,146				245,146
Rent of property	5,050				5,050
Interest	1,021,468	521	646		1,022,635
Federal grants		290,592	39,961	2,217,065	2,547,618
Miscellaneous	605,827	60,019		7,795	673,641
Total revenues	23,560,761	2,380,486	2,414,229	4,031,006	32,386,482
Expenditures					
Current:					
General government	10,929,463	1,047,256		37,333	12,014,052
Public safety	1,713,655				1,713,655
Public works	4,657,108	852,634	5,379,645		10,889,387
Health and welfare	2,613,310	97,141		946,838	3,657,289
Culture and recreation	1,099,645				1,099,645
Economic development	291,142		1,103,018		1,394,160
Community development				1,214,519	1,214,519
Education		109,361		2,512	111,873
Debt service:					
Principal				1,015,000	1,015,000
Interest				934,162	934,162
Total expenditures	21,304,323	2,106,392	6,482,663	4,150,364	34,043,742
Excess (deficiency) of revenues over (under) expenditures	2,256,438	274,094	(4,068,433)	(47,538)	(1,585,439)
Other financing sources (uses)					
Transfers in		190,955	505,828	661,960	1,358,743
Transfers out	(1,358,743)				(1,358,743)
Long-term debt issued		545,000	5,050,000		5,595,000
Total other financing sources (uses)	(1,358,743)	735,955	5,555,828	661,960	5,595,000
Net change in fund balances	897,695	1,010,049	1,487,395	614,422	4,009,561
Fund balance, beginning	954,463	1,656,822	6,456,654	1,162,476	10,230,415
Fund balance, ending	\$ 1,852,158	\$ 2,666,871	\$ 7,944,049	\$ 1,776,898	\$ 14,239,976

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, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 4,009,561

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. 7,373,858

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 (1,727,841)

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. 65,688

Change in landfill accrual 47,000

Some revenues reported in the Statement of Activities do not provide current financial resources in Governmental Funds. 386,174

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. (4,580,000)

Change in Net Assets of Governmental Activities \$ 5,574,440

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2007

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 a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, economic development, education, 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.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality implemented the capitalization of infrastructure since July 1, 2002.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

The following is a summary of the significant accounting policies of the Municipality:

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. Based on the above criteria, the Municipality does not have component units to include within its reporting entity.

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 units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

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 grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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) State & Federal Grants- 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) State and Local Grants - is the accounting entity in which revenues derived from local funds and state 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 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

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:

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 Fund - Local and State Grants - Special Revenue Funds are used to account for revenues derived from local funds, state 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.

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

Capital Projects Fund - State and Local Grants - Capital Projects Fund 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

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. 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 expenditures in governmental funds. Proceeds from issuance of general long-term debt reported as other financing sources.

Property taxes, other taxes, licenses, rent, 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

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.

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 service 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. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

- 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

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 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:

<u>Description</u>	<u>Useful Life</u>	<u>Capitalization threshold</u>
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 included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

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 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. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

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 when the liability is incurred.

8. **Reservations 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. **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.
- b. **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.
- 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

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 gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2007 amounted to approximately \$322,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$315,000 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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

The details of this reconciliation are as follows:

Capital assets, net of depreciation	\$63,506,567
Bonds Payable	(19,505,000)
Note Payable	(7,845,000)
Accrued compensated absences	(3,637,794)
Landfill closure and post closure care costs	<u>(859,000)</u>
Net adjustment to reduce fund balance total governmental funds to arrive at net assets-governmental activities	<u>\$31,659,773</u>

2. DEPOSITS

Under Commonwealth of 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 \$14,063,233 in the general fund, \$300,000 in the special revenue fund - federal grants, and \$1,045,493 in the capital projects fund - state and local grants were fully collateralized at June 30, 2007.

The deposits at GDB of \$1,056,385 in the special revenue fund - state and federal grants, \$6,786,596 in the capital projects fund - state and federal grants and \$1,681,420 that is restricted for debt service fund, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

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, 2007, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

3. RECEIVABLES (CONTINUED)

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, 2007, net of allowance for uncollectible accounts.

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

- B. Intergovernmental Receivables-** Intergovernmental receivables in Special Revenue (02), Capital Projects (20 & 21) and the Other Governmental Funds represent mainly expenditures incurred not yet reimbursed by the Federal Government. Following is a detail of the intergovernmental receivables:

<u>Program Description</u>	<u>Amount</u>
Local Economic	\$ 13,896
Grants for Public Works and Economic Development	25,448
Community Development Block Grants- Entitlement	61,627
Others	<u>38,352</u>
Total	<u>\$ 139,323</u>

- C. Property Tax-** Property tax receivable in the general fund represents the balance owed from the Municipal Revenue Collection Center (CRIM) at June 30, 2007, as described in Note 6. Also, part of this property tax receivable represents the amount due from the CRIM related to delinquent debts. Following is a detail of the property tax receivables:

<u>Governmental Entity</u>	<u>Amount</u>
Municipal Revenue Collection Center (CRIM)	<u>\$ 88,148</u>
Total	<u>\$ 88,148</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2007 are summarized as follows:

a. Due from/to other fund:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund (01)	\$1,069,826	\$ 965
Special Revenue Fund (02)	835	725,023
Capital Projects Funds (20 & 21)	43,664	350,225
Other Governmental Fund	<u>106,601</u>	<u>144,713</u>
Total	<u>\$1,220,926</u>	<u>\$1,220,926</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	\$ 661,960
General Fund	Special Revenue Fund (02)	Transfer of funds for electric improvements	190,955
General Fund	Capital Projects Fund (20 & 21)	Transfer of funds for Capital Outlays	<u>505,828</u>
Total			<u>\$1,358,743</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

5. CAPITAL ASSETS

Capital assets; those with an estimated useful life 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 2007, 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, 2006	Additions	Retirements/ Reclassifications	Balance June 30, 2007
Capital asset, not being depreciated:				
Land	\$ 7,894,799	\$3,776,693	\$ (1,271,848)	\$ 10,399,644
Construction in progress	<u>22,155,294</u>	<u>382,214</u>	<u>(2,889)</u>	<u>22,534,619</u>
Total capital assets not being depreciated	<u>30,050,093</u>	<u>4,158,907</u>	<u>(1,274,737)</u>	<u>32,934,263</u>
Capital assets, being depreciated:				
Buildings and building improvements	20,233,482	, 770,141	(12,337)	22,991,286
Infrastructure and Infrastructure improvements	18,788,404	3,243,210		20,031,614
Equipments	3,044,751	502,212	(166,087)	3,380,876
Furnishing	671,731	117,258	(14,318)	774,671
Computers	408,861	178,344	(28,689)	558,516
Works of art	1,297	6,590		7,887
Vehicles	<u>5,516,512</u>	<u>402,043</u>	<u>(198,953)</u>	<u>5,719,602</u>
Total capital assets being depreciated	<u>48,665,038</u>	<u>5,219,798</u>	<u>(420,384)</u>	<u>53,464,452</u>
Less accumulated depreciation for:				
Buildings and building improvements	(5,415,077)	(524,761)	52,256	(5,887,582)
Infrastructure and Infrastructure improvements	(7,968,100)	(499,357)		(8,467,457)
Equipments	(2,592,035)	(205,823)	163,298	(2,634,560)
Furnishing	(606,883)	(30,367)	14,113	(623,137)
Computers	(335,490)	(66,528)	28,615	(373,403)
Works of art	(204)	(286)		(490)
Vehicles	<u>(4,703,753)</u>	<u>(400,719)</u>	<u>198,953</u>	<u>(4,905,519)</u>
Total accumulated depreciation	<u>(21,621,542)</u>	<u>(1,727,841)</u>	<u>457,235</u>	<u>(22,892,148)</u>
Total capital assets being depreciated, net	<u>27,043,496</u>	<u>3,491,957</u>	<u>36,851</u>	<u>30,572,304</u>
Governmental activities capital assets, net	<u>\$ 57,093,589</u>	<u>\$ 7,650,864</u>	<u>\$ (1,237,886)</u>	<u>\$ 63,506,567</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

5. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
General government	\$ 186,741
Public safety	43,321
Public works	875,102
Health and welfare	50,940
Culture and recreation	189,536
Community development	<u>382,201</u>
Total depreciation expense-governmental activities	<u>\$ 1,727,841</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007 are summarized as follows:

<u>Description</u>	<u>General Fund-(01)</u>	<u>Special Revenue Fund (02) - State & Local Grants</u>	<u>Capital Projects Fund (20 & 21) - State & Local Grants</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$ 1,385,602	\$ 40,787	\$ 238,354	\$ 275,454	\$ 1,940,197
Accrued liabilities	<u>161,513</u>	-	-	-	<u>161,513</u>
Total	<u>\$ 1,547,115</u>	<u>\$ 40,787</u>	<u>\$ 238,354</u>	<u>\$ 275,454</u>	<u>\$ 2,101,710</u>

7. 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 Municipal Revenue Collection Center (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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

7. PROPERTY TAXES (CONTINUED)

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. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the preliminary liquidation noting that the collections exceeded advances by \$88,148. 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.

On January 26, 2000, Public Law No. 42 was enacted, which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years.

Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

On June 26 1997, Public Law No. 21 was enacted, which authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

7. PROPERTY TAXES (CONTINUED)

enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables.

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.

8. MUNICIPAL SALES AND USE TAX

On November 13, 2006, the Municipal Legislature approved the Ordinance No. 20, Series 2006-2007, which imposes a Municipal Citizen's Contribution (sales and use tax) of 1.5%. The collection of said Contribution began on November 15, 2006. The Municipality collected approximately \$1,036,000 during the year ended on June 30, 2007.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

9. DUE TO OTHER GOVERNMENTAL ENTITIES

The amounts due to other governmental entities in the general fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
General Services Administration	\$ 38
Retirement System Administration	141,621
Department of Labor	9,000
Puerto Rico Telephone Company	4,802
Puerto Rico Aqueduct and Sewer Authority	7,085
Commonwealth of Puerto Rico Employee Association	<u>17,524</u>
Total	<u>\$ 180,070</u>

10. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of approximately \$11,400,000 in the general fund relates to municipal license tax collected in fiscal year 2006-07 that will be earned in fiscal year 2007-08.

B. Federal Grants- The deferred revenues presented in Special Revenue (02) and 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:

<u>Program Description</u>	<u>Amount</u>
Child Care and Development Block Grants	\$ 96,630
Emergency Shelter Grants Program	22,598
Public Assistance Grant	11,793
Federal Transit-Formula Grant	2,240
Others	<u>29,209</u>
Total	<u>\$ 162,470</u>

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 15,500,000	\$5,050,000	\$ (1,045,000)	\$ 19,505,000	\$ 555,000
Notes Payable	7,700,000	545,000	(400,000)	7,845,000	345,000
Advances from CRIM	97,721		(97,721)		
Compensated absences	2,976,810	1,038,731	(377,747)	3,637,794	402,663
Landfill obligation	906,000		(47,000)	859,000	47,000
Total	<u>\$ 27,180,531</u>	<u>\$6,633,731</u>	<u>\$(1,967,468)</u>	<u>\$31,846,794</u>	<u>\$1,349,663</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

11. LONG-TERM LIABILITIES (CONTINUED)

1. **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of 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 of 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.

2. **Bonds payable-** The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2007 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2007
1995 Series	7-1-21	\$ 605,000	4.86% to 6.75%	\$ 490,000
1999 Series	7-1-24	260,000	2.70% to 7.81%	225,000
1999 Series	7-1-24	710,000	2.80% to 7.81%	625,000
2000 Series	7-1-25	6,440,000	2.70% to 7.81%	5,790,000
2002 Series	7-1-21	1,335,000	5.0% to 6.5%	1,160,000
2002 Series	7-1-26	580,000	5.0% to 6.5%	530,000
2004 Series	7-1-29	4,020,000	5.00%	3,835,000
2004 Series	7-1-14	905,000	5.00%	680,000
2005 Series	7-1-29	435,000	4.30% to 5.0%	415,000
2005 Series	7-1-21	730,000	4.30% to 5.0%	705,000
2006 Series	7-1-31	5,050,000	6.62% to 7.25%	<u>5,050,000</u>
Total general obligation bonds				<u>\$ 19,505,000</u>

These bonds are payable from the special 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:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	555,000	1,141,662
2009	580,000	1,066,614
2010	620,000	1,035,756
2011	665,000	1,002,152
2012	710,000	965,763
2013-2017	3,950,000	4,212,202
2018-2022	5,080,000	2,968,585
2023-2027	4,925,000	1,458,776
2028-2032	<u>2,420,000</u>	<u>364,277</u>
Total	<u>\$ 19,505,000</u>	<u>\$ 14,215,787</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

11. LONG-TERM LIABILITIES (CONTINUED)

3. Notes Payable- The proceeds of the issuance of notes payable were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2007</u>
2003 General obligations notes	7-1-10	\$ 725,000	5.0% to 6.0%	\$ 455,000
2006 General obligations notes	7-1-13	545,000	6.62% to 7.25%	545,000
2004-A Series- Section 108 Loan	8-1-22	5,100,000	Variable	4,950,000
2006-A Series- Section 108 Loan	8-1-24	1,895,000	Variable	<u>1,895,000</u>
Total notes payable				<u>\$ 7,845,000</u>

These notes are payable from the special 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 notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 345,000	\$ 413,718
2009	375,000	398,668
2010	410,000	379,820
2011	450,000	358,578
2012	431,000	335,921
2013-2017	2,290,000	1,315,195
2018-2022	2,730,000	642,074
2023-2027	<u>814,000</u>	<u>4,378</u>
Total	<u>\$ 7,845,000</u>	<u>\$ 3,888,352</u>

4. Compensated absences- The government-wide statement of net assets includes approximately \$1,359,531 of accrued sick leave benefits, and approximately \$2,278,263 of accrued vacation 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, 2007

11. LONG-TERM LIABILITIES (CONTINUED)

5. **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 \$ 859,000 as the Municipality's estimated current cost for landfill post-closure costs as of June 30, 2007. 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.

12. 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 entitled 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.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

12. PENSION PLAN (CONTINUED)

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 during the year ended June 30, 2007 amounted to approximately **\$692,000**, this amount represented 100% of the required contribution.

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, 2007, 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, 2007

13. RISK MANAGEMENT

The Property Division of the Municipality is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

14. 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, 2007, 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 grating 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.

15. SUBSEQUENT EVENTS

On July 29, 2007, an amendment to Act No. 117 of July 4, 2006, known as the "Tax Fairness Act of 2006", was enacted with the purpose of establishing a mandatory sales and use tax of 1.5% at the Municipal Level. The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by the Treasury Department. The Act provides an optional surtax on the un-process food. This surtax must be approved by the Municipal Legislature.

The Treasury Department is responsible to create, the Municipal Development Fund (.02%), The Municipal Redemption Fund (.02%) and The Municipal Improvements Fund (.01%) with the remaining 0.5%.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 3,909,145	\$ 3,909,145	\$ 4,686,509	\$ 777,364
Municipal license tax	9,500,000	11,650,616	11,674,151	23,535
Fines and forfeiture	10,000	26,070	245,146	219,076
Licenses, permits and other local taxes	380,000	1,441,508	1,268,127	(173,381)
Charges for services	31,000	31,000	19,197	(11,803)
Intergovernmental	3,896,681	3,896,681	4,035,286	138,605
Interest	275,000	786,333	1,021,468	235,135
Rent of property	7,800	7,800	5,050	(2,750)
Miscellaneous	<u>311,000</u>	<u>344,410</u>	<u>605,827</u>	<u>261,417</u>
Total revenues	18,320,626	22,093,563	23,560,761	1,467,198
Budget carryover (1)	<u> </u>	<u>865,900</u>	<u>865,900</u>	<u> </u>
Total revenues after carryover	<u>18,320,626</u>	<u>22,959,463</u>	<u>24,426,661</u>	<u>1,467,198</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	9,439,917	11,022,884	10,713,875	309,009
Public safety	1,524,662	1,735,177	1,715,083	20,094
Public works	4,193,110	4,823,990	4,719,132	104,858
Health and welfare	1,366,521	2,683,998	2,619,913	64,085
Culture and recreation	885,562	1,143,833	1,113,533	30,300
Economic development	218,662	361,719	291,142	70,577
Operating transfer to other funds	<u>692,192</u>	<u>1,187,862</u>	<u>1,187,862</u>	<u> </u>
Total expenditures, encumbrances and other financing uses	<u>\$ 18,320,626</u>	<u>\$ 22,959,463</u>	<u>22,360,540</u>	<u>598,923</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)			<u>\$ 2,066,121</u>	<u>\$ 2,066,121</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$ 24,426,661
Differences-budget to GAAP:				
Budget Carryover				<u>(865,900)</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 23,560,761</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 22,360,540
Differences-budget to GAAP:				
Non-budgeted expenditures				456,515
Prior year encumbrances recorded as current year expenditures for GAAP basis				88,563
Current year encumbrances recorded as expenditures for budgetary purposes				(413,433)
Non-budgeted transfer out				<u>170,881</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 22,663,066</u>

(1) Represents fund balance carried over from prior year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2007

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, 2007 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2007.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Rural Housing Site Loans and Self-Help- Housing Land Development Loans	10.411		\$ 2,677
Housing Preservation Grant	10.433		51,897
Total U.S. Department of Agriculture			54,574
U.S. DEPARTMENT OF COMMERCE:			
Direct Programs:			
Grants for Public Works and Economic Development	11.300		25,448
Total U.S. Department of Commerce			25,448
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Housing Assistance Council	14.169		15,758
Community Development Block Grants/Entitlement Grants	14.218	B-01-MC-72-0021	953,621
Section 108 Loan Guarantee	14.248	B-06-MC-72-0021	280,940
Local Economic	14.221		13,895
Section 8 Housing Choice Vouchers	14.871	RQ-062	1,091,102
Pass-through Commonwealth of Puerto Rico Department of the family:			
Emergency Shelter Grants Program	14.231	ESG-04-DC- 720001	77,402
Total U.S. Department of Housing and Urban Development:			2,432,718

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through Commonwealth of Puerto Rico Department Highway Safety Authority:			
Federal Transit: Formula Grants	20.507		288,760
Pass-through Commonwealth of Puerto Rico Department Highway Safety and Drunk:			
Driving Prevention Incentive Grant	20.601	06-03-08	<u>24,660</u>
Total U.S. Department of Transportation			<u>313,420</u>
U.S. DEPARTMENT OF EDUCATION:			
Pass-through Commonwealth of Puerto Rico-Office of Elementary and Secondary Education			
Even Start-State Educational Agencies	84.213	2006-AF-0167	142,678
Pass-through Commonwealth of Puerto Rico Department of Education:			
Library Services and Technology	N/A		<u>1,621</u>
Total U.S. Department of Education			<u>144,299</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Public Assistance Grant	83.544	GAR-1501-DR-PR	17,922
Hazard Mitigation Grant	83.548	PR0022 & 0023	11,146
Homeland Security Grant	96.067	2005-GFT54009	<u>60,492</u>
Total U.S. Department of Homeland Security			<u>89,560</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico - Family Department (ACUDEN):			
Child Care and Development Block Grant	93.575	Not Available	<u>5,153</u>
Total U.S. Department of Health and Human Services			<u>5,153</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,065,172</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, 2007

1. 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*.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue Fund (02), Capital Projects Fund (20 & 21) and in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the funds financial statements and the disbursements in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Special Revenue Fund (02)</u>	<u>Capital Projects Fund (20 & 21)</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 1,437,602	\$ 280,940	\$ 1,346,630	\$ 3,065,172
Non federal programs expenditures	<u>668,790</u>	<u>6,201,723</u>	<u>2,803,734</u>	<u>9,674,247</u>
Total expenditures in the basic financial statements	<u>\$ 2,106,392</u>	<u>\$ 6,482,663</u>	<u>\$ 4,150,364</u>	<u>\$ 12,739,419</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 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 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, 2007, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated November 6, 2007, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects **Municipality of Cidra's** ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of **Municipality of Cidra's** financial statements that is more than inconsequential will not be prevented or detected by **Municipality of Cidra's** internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs

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

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

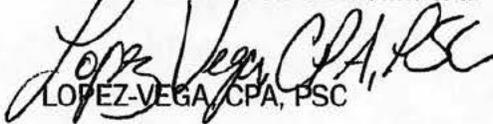
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any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

Compliance and Other Matters

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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the **Municipality of Cidra** in a separate letter dated March 17, 2008.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 17, 2008

Stamp No. 2196066 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 IN ACCORDANCE WITH OMB
CIRCULAR A-133**

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

Compliance

We have audited the compliance of the **Municipality of Cidra** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The **Municipality of Cidra's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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 Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items, **07-01** and **07-02**.

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

Internal Control Over Compliance

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

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of federal program on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items, **07-01** and **07-02** to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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



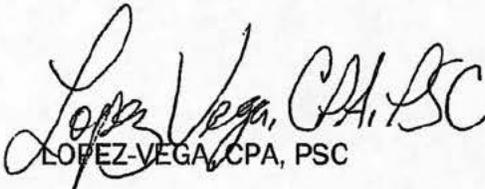
López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

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

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the Municipality of Cidra in a separate letter dated March 17, 2008.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 17, 2008

Stamp No. 2196067 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, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	Yes	No <input checked="" type="checkbox"/>
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported <input checked="" type="checkbox"/>
Noncompliance material to financial statements noted?	Yes	No <input checked="" type="checkbox"/>

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No <input checked="" type="checkbox"/>
Significant deficiencies identified not considered to be material weaknesses?	Yes <input checked="" type="checkbox"/>	None reported

Type of auditor's 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 <input checked="" type="checkbox"/>	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant - Entitlement Grant
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 <input checked="" type="checkbox"/> No

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section II - Financial Statements Findings

During our audit, we did not detect significant deficiencies, material weaknesses and instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with *Government Auditing Standards*.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	07-01
Program	Community Development Block Grant/Entitlement Grants (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Procurement – Contract Provisions
Statement of Condition	<p>During our contract provision test, we verified contracts formalized during the fiscal year 2006-2007. The following summarize the situations found:</p> <ul style="list-style-type: none">a. One (1) contracts did not include provisions compliance with Davis Bacon Act;b. Four (4) contract did not include provision for granting access to GAO or other Federal Agency, to books, documents, etc;c. Four (4) contracts did not include a provision for compliance with the Copeland “Anti-kickback”;
Criteria	OMB Common Rules, Subpart I, Section _.36 (b) requires that all purchase orders and contracts include all clauses required by Federal Statutes, executive orders and implementing regulations.
Cause of Condition	The Municipality’s internal control and procedures failed to detect the exclusion of certain contract clauses in the procurement process.
Effect of Condition	The Municipality is not in compliance with OMB Common Rules, Subpart I, Section _.36 (b).
Recommendation	We recommend that the Municipality should strengthen its procedures in order to assure that the contracts contain all provisions requested by federal agencies.
Questioned Costs	None
Management Response and Corrective Action	<p>The Municipality’s Management concurs with the finding. The Municipal Secretary will ensure that any future contract with federal funding will include the appropriate clauses in compliance with OBM Common Rules, Subpart I, Section _.36 (b).</p>

Responsible Person: Lizbeth Llera Carrasquillo
Municipal Secretary

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	07-02
Program	Section 8 Housing Choice Vouchers Program CFDA (14.871); U.S. Department of Housing and Urban Development
Requirement	Cash Management
Statement of Condition	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 a monthly average cash balance in books of approximately \$270,108.07. At June 30, 2007, the cash balance in books was \$263,412.85.
Criteria	OMB Common Rules, Subpart C, Section .20 (b) (7), 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 determinate at year end.
Effect of Condition	The PHA did not comply with the OMB Common Rules, Subpart C, Section .20, (b) (7).
Recommendation	We recommend to the Municipality's management 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 respects to its origin, and later, to make any necessary adjusting journal entries to correct accounting records.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2007

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 07-02 (Continued)

(7420.10G), Chapter 20, Financial management.

Questioned Costs None

Management Response

And Corrective Action Municipality's Management concurs with the finding. The program concluded that balance under program "Section 8" is an old balance. The available balance belongs to administrative funds. This old balance will do remove not late next fiscal year.

Responsible Person: George Pereira
Federal Programs Department Director

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS

YEAR ENDED JUNE 30, 2007

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
06-01	14.871	<p><u>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.</u></p> <p>Full corrective action has been taken.</p>
06-02	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. The auditors reissued the finding for the current year. Finding Reference 07-01.</p>
05-01	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>Full corrective action has been taken.</p>
05-02	14.871	<p><u>The Municipality prepared and organizes a waiting list with the parameters established, but did not follow admission procedures to establish adequate internal control procedures to let us perform a proper tracing of participants selected from the waiting list in order to ascertain that the participant selection was made from the top of waiting list. Also, the program must maintain adequate documental information of the date that the program gives the opportunity of housing assistance to the participants and the date that the voucher was issued.</u></p> <p>Full corrective action has been taken.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2007

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>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 07-02.</p>