

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL

MUNICIPIO DE CIDRA
AUDITORÍA 2008-2009
30 DE JUNIO DE 2009

OFICINA DEL COMISIONADO
DE ASUNTOS MUNICIPALES

10 MAR 31 AM 11:42

RECIBIDO
UNIDAD DE CONTABILIDAD

10/03/09

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, 2009

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, 2009

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
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenues, Expenses and Changes in Net Assets	19
Statement of Cash Flow	20
Notes to Basic Financial Statements	21-46
<u>SUPPLEMENTARY INFORMATION</u>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	47
Notes to Budgetary Comparison Schedule-General Fund	48
Schedule of expenditures of federal awards	49-51
Notes to the schedule of expenditures of federal awards	52

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, 2009

CONTENTS

	Page
<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>	53-54
Report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	55-57
<u>FINDINGS AND QUESTIONED COSTS</u>	
Schedule of findings and questioned cost	58-65
Summary schedule of prior year audit findings	66-67



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, the business-type 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, 2009, 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 an opinion 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund, and the aggregate remaining fund information of the **Municipality of Cidra, Puerto Rico**, as of June 30, 2009, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The Management's Discussion and Analysis on pages 3 through 12 and the Budgetary Comparison Schedule-General Fund on page 47 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.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
December 18, 2009

Stamp No. 2407050 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, 2009

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, 2009. 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. Besides, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2008. 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. provides for an evaluation of its financial condition as of the end of fiscal year 2008-2009 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 financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2009 constitute factual evidence of the Municipality's economic strength by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$92,427,207 which represents an decrease of 5% compared to prior fiscal year.
2. At the end of fiscal year 2009, total liabilities amounted to \$45,731,362. Out of said amount, \$35,160,910 corresponded to long-term liabilities of which \$30,775,000 represented the outstanding balance of bonds and notes 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 \$46,695,845 which represents an decrease of 3% compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$30,442,415, derived from the following sources: \$457,670 from charges for services; \$4,001,844 from operating grants and contributions; \$2,328,128 from capital grants and contributions obtained from other sources, and \$23,654,773 from general revenues available.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

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 \$32,030,767.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a decrease in the Net Assets figure by \$1,588,347.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$8,447,565.
8. In the fund financial statements, the governmental activities revenue decreased \$1,012,221 (or 5%), nevertheless governmental activities expenditures decrease \$259,180 (or 2%).
9. As the end of the current fiscal year, the Municipality's general fund balance amounted to \$150,423 compared to a fund balance of \$1,377,811 in the prior fiscal year.
10. The actual General Fund budgetary activities resulted in a favorable balance of \$311,604.

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 2009. 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.

The Statement of Net Assets reflects information of the Municipality as a whole on a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

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, 2009

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.

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Assets

The Statement of Net Assets serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Cidra**, primary government assets exceeded total liabilities by \$46,695,845 at the end of 2009, as compared with \$48,284,192 as restated which reflect a decrease of \$1,588,347 over previous fiscal year. The following condensed Statement of Net Assets of the Primary Government shows on a comparative basis the most important components of the \$1,588,347 decrease reflected in the Net Assets figure.

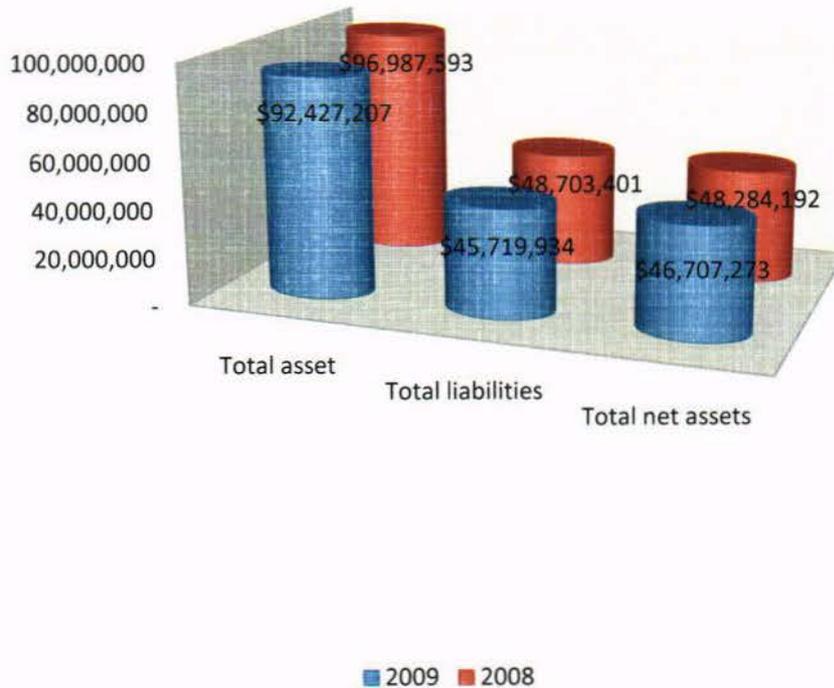
**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Condensed Statement of Net Assets	2009	2008	Change	%
Current and other assets	\$ 18,678,250	\$ 25,787,984	\$(7,109,734)	(38%)
Capital assets	73,748,957	71,199,609	2,549,348	4%
Total assets	92,427,207	96,987,593	(4,560,386)	(5%)
Current and other liabilities	10,570,452	12,007,250	(1,436,798)	(13%)
Long-term liabilities	35,160,910	36,696,151	(1,546,669)	(5%)
Total liabilities	45,731,362	48,703,401	(2,983,467)	7%
Invested in capital assets, net of related debt	42,628,880	38,397,907	4,234,062	11%
Restricted	8,297,142	12,907,400	(4,610,258)	(56%)
Unrestricted deficit	(4,235,487)	(3,021,115)	(1,200,723)	(41%)
Total net assets	\$ 46,695,845	\$ 48,284,192	\$(1,588,347)	(4%)



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The Municipality's net assets decrease by \$1,576,919. Approximately forty five percent (55%) of the Municipality's total revenue came from taxes, while forty five percent (39%) resulted from grants and contributions, including federal aid. Charges for Services provided two percent (2%), Interest and Investment earnings (2%) and miscellaneous (2%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2009 and 2008. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

Condensed Statement of Activities	2009	2008	Change	%
Program revenues:				
Charges for services	\$ 457,670	\$ 470,891	\$ (13,221)	(3%)
Operating grants and contributions	4,001,844	4,450,813	(448,969)	(11%)
Capital grants and contributions	2,328,128	1,685,563	642,565	38%
General revenues:				
Property taxes	5,521,827	6,014,529	(492,702)	(9%)
Municipal sales and use tax	1,676,545	1,423,151	253,394	18%
Municipal license tax	9,890,489	11,931,580	(2,041,091)	(21%)
Grants and contributions not restricted to specific programs	5,412,276	4,303,043	1,109,233	26%
Interest and investment earnings	533,392	854,727	(321,335)	(60%)
Miscellaneous	620,244	392,460	227,784	58%
Total revenues	30,442,415	31,526,757	(1,084,342)	(4%)
Expenses:				
General government	13,391,899	10,334,760	(3,057,139)	(30%)
Public safety	1,640,703	874,643	(766,060)	(88%)
Public works	8,400,334	9,572,873	1,172,539	14%
Culture and recreation	1,018,485	789,960	(228,525)	(29%)
Health and welfare	4,431,544	4,091,540	(340,004)	(8%)
Economic development	251,836	268,078	16,242	6%
Community development	1,473,027	2,114,190	(641,163)	43%
Education	6,809	10,389	3,580	53%
Interest on long-term debt	1,404,697	1,174,029	(230,668)	(20%)
Total expenses	32,019,334	29,230,462	(2,788,872)	(10%)
Change in net assets	(1,576,919)	2,296,295	(3,873,214)	(146%)
Net assets, beginning of year (as restated)	\$48,284,192	\$ 45,987,897	2,296,295	5%
Net assets, end of year	<u>\$ 46,707,273</u>	<u>\$ 48,284,192</u>	<u>\$ 1,576,919</u>	3%

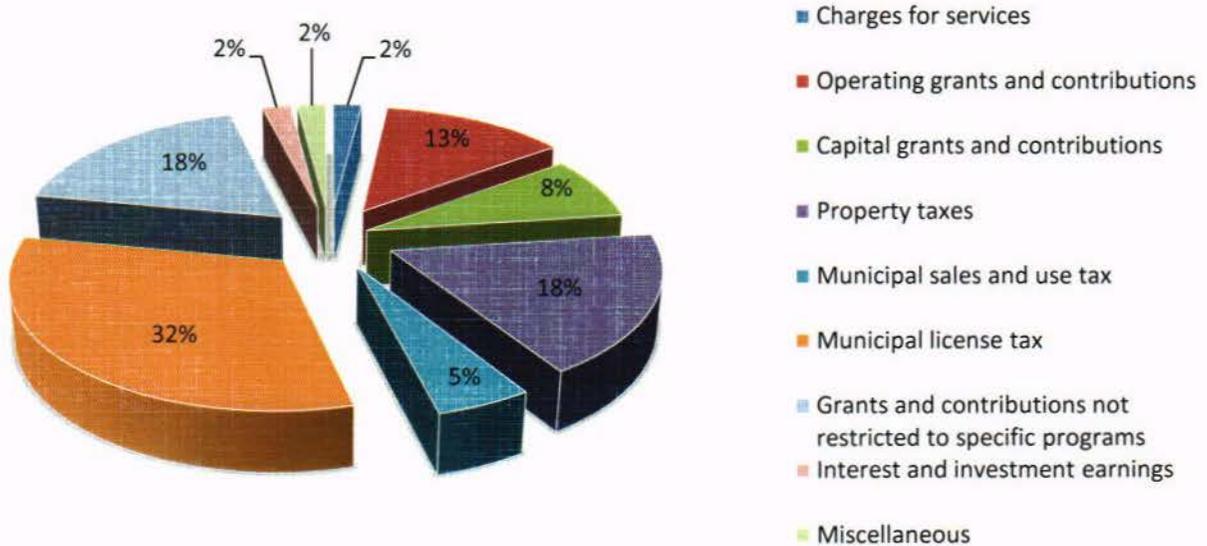
COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

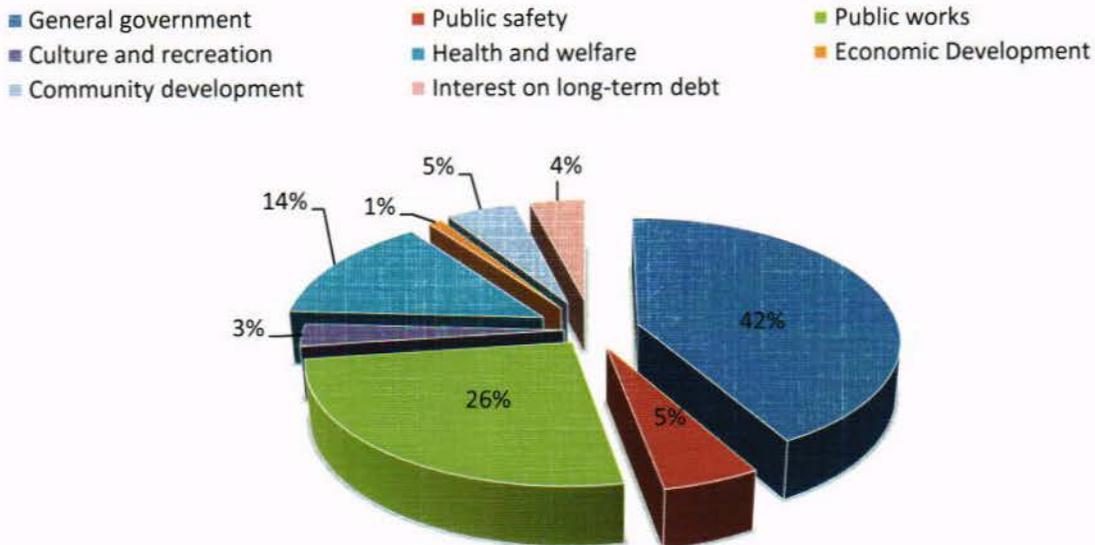
YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2009



Expenses 2009



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS - (CONTINUED)

YEAR ENDED JUNE 30, 2009

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances amounting to \$8,447,565, which represents a decrease of \$5,819,271 when compared with the prior year. Out of the indicated balance, \$8,404,228 were reserved or committed for the following purposes: (1) \$107,086 to liquidate contracts and purchase orders corresponding to prior fiscal year; 2) \$1,877,111 for debt service payments; 3) \$3,647,254 to pay for capital projects; and 4) \$2,772,777 for other purposes.

As of June 30, 2009, the General Fund, which is the main operating fund of the Municipality, reflected an undesignated fund balance of \$43,337.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2008-2009, the Municipal Legislature approved revisions to the operational budget which resulted in further increases in revenues and current expenditures which represented transactions detected during the normal course of business. Despite these budgets readjustments and as previously stated, the Municipal administration of **Cidra** was able to maintain a balanced budget as required by law as reflected in exhibit, Budgetary Comparison Schedule- General Fund attached hereto, budgetary analysis reflected an excess of \$311,604 of total operating revenues over current expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2009, amounted to \$100,280,898 which upon deduction of accumulated depreciation in the amount of \$26,531,941 produced a net book value attributable to capital assets in the amount of \$73,748,957. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately four percent (4%) of net book value. Depreciation charges for the year totaled \$2,227,801.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes 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, 2009, the Municipality has \$4,422,555 of proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the Capital Project Fund- Local, State and Federal Grants.

Debt Administration

The Puerto Rico Legislative Assembly has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64. Such Act requires a Municipality must have sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. In the particular case of the Municipality of Cidra, 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 and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2008-2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

MANAGEMENT'S DISCUSSION AND ANALYSIS – (CONTINUED)

YEAR ENDED JUNE 30, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 millions in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the Municipality of Cidra will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA. As of October 2009, a project through the Homeless Prevention and Rapid Rehousing Program for \$561,345 was initiated. The Municipality expects additional projects and funding to be awarded and expended in the following fiscal year 2009-2010.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico, approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objective of the Plan is to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The amount assigned to the Municipality of Cidra amounts to \$1,578,947 for the first phase of the (PINI) Plan. In the first phase, the municipalities can use the funds for the following: 1) funding of essential infrastructure, and 2) those municipalities with deficit, that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use those them to partially or fully liquidate existing debts with governmental agencies. The Municipality assigned the totally funds \$1,578,947 for infrastructure projects.

On August 11, 2009, the Municipal Legislature approved the issuance of a special obligation note for the amount of \$1,980,000 for administrative expenses.

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, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 12,126,951	\$ 5,310	\$ 12,132,261
Cash with fiscal agent	6,299,666		6,299,666
Accounts receivable:			
Municipal license tax	4,373		4,373
Intergovernmental	127,994		127,994
Others	113,956		113,956
Capital assets:			
Land, improvements and construction in progress	30,925,368	600,000	31,525,368
Buildings, infrastructure and other capital assets, net of depreciation	35,760,483	6,463,106	42,223,589
Total capital assets	<u>66,685,851</u>	<u>7,063,106</u>	<u>73,748,957</u>
Total assets	<u>85,358,791</u>	<u>7,068,416</u>	<u>92,427,207</u>
Liabilities			
Accounts payable and accrued liabilities	2,454,754		2,454,754
Due to other governmental entities	340,503		340,503
Deferred revenues:			
Municipal license tax	7,318,164		7,318,164
Federal grant revenues	111,954		111,954
Interest payable		345,077	345,077
Noncurrent liabilities:			
Due within one year	1,656,167	225,000	1,881,167
Due in more than one year	27,034,743	6,245,000	33,279,743
Total liabilities	<u>38,916,285</u>	<u>6,815,077</u>	<u>45,731,362</u>
Net Assets			
Invested in capital assets, net of related debt	42,380,851	248,029	42,628,880
Restricted for:			
Capital projects	3,647,254		3,647,254
Debt service	1,877,111		1,877,111
Other purposes	2,772,777		2,772,777
Unrestricted (deficit)	<u>(4,235,487)</u>	<u>5,310</u>	<u>(4,230,177)</u>
Total net assets	<u>\$ 46,442,506</u>	<u>\$ 253,339</u>	<u>\$ 46,695,845</u>

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
General government	\$ 13,035,820	\$ 117,992	\$ 582,866	\$ -	\$ (12,334,962)	\$ -	\$ (12,334,962)
Public safety	1,640,703	126,528	63,585	-	(1,450,590)	-	(1,450,590)
Public works	8,400,334	-	1,788,819	2,328,128	(4,283,387)	-	(4,283,387)
Health and welfare	4,431,544	-	1,466,520	-	(2,965,024)	-	(2,965,024)
Culture and recreation	1,018,485	8,150	100,054	-	(910,281)	-	(910,281)
Economic development	251,836	-	-	-	(251,836)	-	(251,836)
Community development	1,473,027	-	-	-	(1,473,027)	-	(1,473,027)
Education	6,809	-	-	-	(6,809)	-	(6,809)
Interest on long-term debt	1,050,347	-	-	-	(1,050,347)	-	(1,050,347)
Total governmental activities	\$ 31,308,905	\$ 252,670	\$ 4,001,844	\$ 2,328,128	(24,726,263)	-	(24,726,263)
Business type activities:							
General government	367,507	-	-	-	-	(367,507)	(367,507)
Economic development	-	205,000	-	-	-	205,000	205,000
Interest on long term debt	354,350	-	-	-	-	(354,350)	(354,350)
Total business type activities	721,857	205,000	-	-	-	(516,857)	(516,857)
Total primary government	\$ 32,030,762	\$ 457,670	\$ 4,001,844	\$ 2,328,128	(24,726,263)	(516,857)	(25,243,120)
General revenues:							
Property taxes					5,521,827		5,521,827
Municipal license tax					9,890,489		9,890,489
Municipal sales and use tax					1,676,545		1,676,545
Grants and contributions not restricted to specific programs					5,412,276		5,412,276
Interest and investment earnings					533,392		533,392
Miscellaneous					620,244		620,244
Transfers					(554,350)	554,350	-
Total general revenues and transfers					23,100,423	554,350	23,654,773
Change in net assets					(1,625,840)	37,493	(1,588,347)
Net assets - beginning as restated					48,068,346	215,846	48,284,192
Net assets - ending					\$ 46,442,506	\$ 253,339	\$ 46,695,845

Commonwealth of Puerto Rico
Municipality of Cidra
Balance Sheet
Governmental Funds
June 30, 2009

	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	\$ 7,512,810	\$ 2,065,490	\$ 2,239,570	\$ 309,081	\$ 12,126,951
Cash with fiscal agent		1,421,813	3,000,742	1,877,111	6,299,666
Accounts receivable:					
Municipal licenses tax	4,373				4,373
Intergovernmental				127,994	127,994
Other	85,144		26,265		113,956
Due from other funds	1,108,763		2,391		1,111,154
Total assets	\$ 8,711,090	\$ 3,487,303	\$ 5,268,968	\$ 2,314,186	\$ 19,784,094
Liabilities and Fund Balances					
Liabilities :					
Accounts payable and accrued liabilities	\$ 900,376	\$ 221,525	\$ 1,111,934	\$ 220,919	\$ 2,454,754
Due to other governmental entities	340,503				340,503
Due to other funds	1,624	466,885	509,780	132,865	1,111,154
Deferred revenues:					
Municipal license tax	7,318,164				7,318,164
Federal grant revenues				111,954	111,954
Total liabilities	8,560,667	688,410	1,621,714	465,738	11,336,529
Fund balances:					
Reserved for:					
Encumbrances	89,410				89,410
Capital projects			3,647,254		3,647,254
Reserved reported in nonmajor funds:					
Debt service fund				1,877,111	1,877,111
Other purposes		2,798,893		(26,116)	2,772,777
Unreserved:					
Undesigned	61,013				61,013
Total fund balances	150,423	2,798,893	3,647,254	1,850,995	8,447,565
Total liabilities and fund balances	\$ 8,711,090	\$ 3,487,303	\$ 5,268,968	\$ 2,316,733	

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	66,685,851
Long-term liabilities, including accrued interest payable, are not due and payable in the current period, and therefore, are not reported in the funds	(28,690,910)
Net assets of governmental activities	\$ 46,442,506

Commonwealth of Puerto Rico
Municipality of Cidra
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	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	\$ 4,634,599	\$ -	\$ -	\$ 887,228	\$ 5,521,827
Municipal sales and use tax		1,312,812		363,733	1,676,545
Municipal license taxes	9,890,489				9,890,489
Licenses, permits and other local taxes	1,040,592				1,040,592
Charges for services	16,867	101,125			117,992
Intergovernmental	4,371,684	808,504	2,328,128		7,508,316
Fines and forfeitures	126,528				126,528
Rent of property	3,150	5,000			8,150
Interest	484,601	4,986	43,805		533,392
Federal grants		199,384		2,821,471	3,020,855
Miscellaneous	620,244	51,869		5,822	677,935
Total revenues	21,188,754	2,483,680	2,371,933	4,078,254	30,122,621
Expenditures					
Current:					
General government	11,957,789	3,034,246			14,992,035
Public safety	1,731,970				1,731,970
Public works	4,214,801	149,639	5,120,085		9,484,525
Health and welfare	2,718,708	620,101		1,258,998	4,597,807
Culture and recreation	979,755				979,755
Economic development	251,836				251,836
Community development		74,729		1,277,729	1,352,458
Education				6,809	6,809
Debt service:					
Principal				940,000	940,000
Interest				1,050,347	1,050,347
Total expenditures	21,854,859	3,878,715	5,120,085	4,533,883	35,387,542
Excess (deficiency) of revenues over (under) expenditures	(666,105)	(1,395,035)	(2,748,152)	(455,629)	(5,264,921)
Other financing sources (uses)					
Transfers in		81,498		484,790	566,288
Transfers out	(561,283)			(559,355)	(1,120,638)
Total other financing sources (uses)	(561,283)	81,498	-	(74,565)	(554,350)
Net change in fund balances	(1,227,388)	(1,313,537)	(2,748,152)	(530,194)	(5,819,271)
Fund balance, beginning as restated	1,377,811	4,112,430	6,395,406	2,381,189	14,266,836
Fund balance, ending	<u>\$ 150,423</u>	<u>\$ 2,798,893</u>	<u>\$ 3,647,254</u>	<u>\$ 1,850,995</u>	<u>\$ 8,447,565</u>

**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, 2009**

Net Change in Fund Balances - Total Governmental Funds \$ (5,819,271)

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. 5,016,313

Capital assets received as a donation are not recorded in the Governmental Funds, because current financial resources are not involved; however, the transaction must be reflected in the Government-Wide Financial Statements based on the fair value of the donated property. This is the amount of donated capital assets recorded in the current period. 114,794

Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities and Change 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. (2,060,294)

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Assets, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities and Change in Net Assets. (1,607)

Bonds and notes proceeds provide current financial resources to Governmental Funds. Repayment of bonds and notes principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets. This is the amount by which the debt proceeds exceed debt service principal payments. 940,000

Advance property tax in excess of actual collections are reported in the Governmental-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, advance property tax in excess of actual collections are not reported as expenditures in Government Funds. This amount of advance property tax in excess of actual collection for the current fiscal year. (310,532)

Repayment of long term Land Information Management System (LIMS) debt is an expenditure in Governmental Funds, but the repayment reduces long term LIMS debt in the Government-Wide Statement of Net Assets. This is the amount paid in the current period. 63,137

Change in landfill accrual 47,000

Long-term compensated absences are 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, long-term compensated were not reported as expenditures in Governmental Funds. The following amount represents the change in long-term compensated absences from prior year. 384,620

Change in Net Assets of Governmental Activities \$ (1,625,840)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
STATEMENT OF NET ASSETS
PROPRIETARY FUND-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30, 2009

	<u>Business Type Activitiy Enterprise</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 5,310
Total current assets	<u>5,310</u>
Noncurrent Assets:	
Capital Assets:	
Land	600,000
Building	6,669,838
Machinery and equipment	180,000
Accumulated depreciation	<u>(386,732)</u>
Total non-current assets	<u>7,063,106</u>
Total assets	<u>7,068,416</u>
Liabilities:	
Current Liabilities:	
HUD Section 108 Loans Guarantee-Principal	225,000
Interest Payable	<u>345,077</u>
Total current liabilities	<u>570,077</u>
Noncurrent Liabilities:	
Long Term Liabilities:	
HUD Section 108 Loan Guarantee	<u>6,245,000</u>
Total noncurrent liabilities	<u>6,245,000</u>
Total liabilities	<u>6,815,077</u>
Net Assets	
Invested in Capital Assets, net of related debt	248,029
Unrestricted	<u>5,310</u>
Total Net Assets	<u><u>\$ 253,339</u></u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND-BUSINESS TYPE ACTIVITY-ENTERPRISE FUND
YEAR ENDED JUNE 30, 2009

	Business - Type Activities Enterprise
Operating revenues:	
Charges for services	\$ 25,000
 Total operating revenues	 25,000
 Operating expenses:	
Depreciation and amortization	167,507
 Total operating expenditures	 167,507
 Operating income (Loss)	 (142,507)
 Non-operating revenues (expenses):	
Municipal Contribution	180,000
Payments-Principal-HUD Section 108 Loan	(200,000)
Interest expense	(354,350)
 Total non-operating revenues (expenses)	 (374,350)
 Income (loss) before transfers	 (516,857)
 Transfers from Governmental Activities	 554,350
 Change in Net Assets	 37,493
Total net assets-beginning as restated	215,846
Total net assets-ending	\$ 253,339

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND- BUSINESS TYPE ACTIVITY- ENTERPRISE FUND
YEAR ENDED JUNE 30, 2009

Cash Flows from Operating Activities:

Receipts from Customers	\$ -
Net Cash Provided (Used) by Operating Activities	-

Cash Flows from Capital and Related Financing Activities:

Principal paid on capital debt	(200,000)
Interest paid	(354,350)
Transfer in from the Governmental Activities	554,350
Net Cash Provided (Used) in Capital and Related Financing Activities	-
Balance-beginning of the year	5,310
Balance-end of the year	5,310

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating loss	\$ (142,507)
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation expenses	167,507
Total Adjustments	167,507
Net Cash Provided (Used) by Operating Activities	\$ 25,000
Noncash investing, capital and financing activities:	none

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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 ("USGAAP") 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.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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.

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:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

General Fund-(01) 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 Federal 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. Proprietary Fund Types focus on report any activities for which a fee is charged to external users for good or services. The Municipality reports the following proprietary fund:

Enterprise Fund – The Enterprise Fund, which was established in April 2007, is used to account for operations (1) that are financed and operated in a similar manner as private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis, are financed or recovered primary through uses, charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, accountability, or other purpose. The enterprise fund of the Municipality includes land and buildings known as “Hotel Treasure Island” located in “Ave. Las Americas, BO. Bayamón at Cidra, Puerto Rico. The source of income comes from rent received from rent received from facility of “Hotel Treasure Island”.

5. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
6. Required supplementary information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
7. 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, 2009

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, and discrete presentations of enterprise fund. 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.

Government has established the following fund categories, fund types, account group and discrete presentation of enterprise fund:

Governmental Fund Types

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 – Section 8 - Special Revenue Funds are used to account for revenues derived from section 8 choice voucher program. 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 Federal Grants - Capital Projects Fund are used to account for financial resources used for the acquisition or construction of major capital facilities.

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

Special Revenue Fund – Other 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

Proprietary Fund Types

Enterprise Fund – The enterprise fund statements consist of State of Net Assets, Statement of Activities and Statement of Cash Flows. This fund accounts for exchange like transactions, like private enterprise and its operations are intended to be self supporting through charges to users. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets.

All transactions and events that affect the total economic resources (net assets) during the period are reported. The statements are reported on the full accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred.

D. Measurement focus, basis of accounting and financial presentation

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the current period or soon enough thereafter. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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.

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 and 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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

- 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.

- 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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

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.

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, 2009

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

9. Accounting for Pension Costs- For the purpose of applying the requirements of GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

10. 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.

11. 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, 2009 amounted to approximately \$369,000. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$438,000 for workers compensation insurance covering all municipal employees.

12. 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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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

payable, are not due and payable in the current period and therefore are not reported in the funds”, and that “capital assets used in governmental activities are not financial resources” and, therefore, are not reported in the funds. The details of this reconciliation are as follows:

		<u>Total Net Assets – Governmental Activities</u>
<u>Net assets invested in capital assets, net of related debt</u>		
Capital assets, net of depreciation	\$ 66,685,851	
Deduct:		
Bonds Payable	(19,840,000)	
Notes Payable	<u>(4,465,000)</u>	\$ 42,380,851
<u>Net assets restricted for capital projects</u>		
Fund balance restricted for capital projects		3,647,254
<u>Net assets restricted for debt service</u>		
Fund balance restricted for debt service		1,877,111
<u>Net assets restricted for other purposes</u>		
Fund balance restricted for other purposes		2,772,777
<u>Net assets unrestricted (deficit)</u>		
General fund – total fund balance:	\$ 150,423	
Deduct:		
Compensated absences	(3,071,679)	
Landfill obligation	(765,000)	
CRIM-Final Liquidation	(310,532)	
LIMS	<u>(238,699)</u>	<u>(4,235,487)</u>
Total net assets – governmental activities		\$ 46,442,506

2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as it’s custodial and credit risk policy, the *Statement of*

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Investment Guidelines for the Government of the Commonwealth of Puerto Rico. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2009.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2009, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2009, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2009, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$100,000 per depositor.

Custodial credit risk – In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2009. Therefore, the Municipality's management has concluded that at June 30, 2009 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2009.

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 \$7,512,810 in the general fund, \$2,065,490 in the special revenue fund (02), \$2,239,570 in the capital projects funds - state and federal grants and \$309,081 in the others governmental funds were fully collateralized at June 30, 2009.

The deposits at GDB of \$1,421,813 in the special revenue fund (02), \$3,000,742 in the capital projects fund - state and federal grants and \$1,877,111 in the others governmental funds 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, 2009, the tax rates were as follows:

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

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2009, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

3. RECEIVABLES (CONTINUED)

B. Intergovernmental- Intergovernmental receivable in the general fund represents the balance owed from the Municipal Revenue Collection Center (CRIM) at June 30, 2009 as described in Note 7. Also, part of this property tax receivable represents the amount due from the CRIM related to delinquent debts.

Intergovernmental receivables in 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>
Community Development Block Grants- Entitlement	<u>127,994</u>
Total	<u>\$ 127,994</u>

4. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2009 are summarized as follows:

a. Due from/to other fund:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund (01)	\$ 1,108,763	\$ 1,624
Special Revenue Fund (02)		466,885
Capital Projects Funds (20 & 21)	2,391	509,780
Other Governmental Fund	<u> </u>	<u>132,865</u>
Total	<u>\$ 1,111,154</u>	<u>\$ 1,111,154</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	Debt Service Fund (10) and Special Revenue Fund (02)	Transfers funds to cover debt service payments and adjust payroll costs of Child Care	\$ 561,283
Special Revenue Fund (70)	Enterprise Fund and Special Revenue Fund(02) and	Transfer funds to cover Section 108 Loan Payment and reimbursement expenses	<u>559,355</u>
Total			<u>\$ 1,120,638</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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 2009, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<u>Governmental Activities:</u>	<u>Balance July 1, 2008 As restated</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Balance June 30, 2009</u>
Capital asset, not being depreciated:				
Construction in progress	\$ 6,089,345	\$2,546,067	\$ -	\$ 8,635,412
Land	<u>22,175,162</u>	<u>114,794</u>	<u> </u>	<u>22,289,956</u>
Total capital assets not being depreciated	<u>28,264,507</u>	<u>2,660,861</u>	<u> </u>	<u>30,925,368</u>
Capital assets, being depreciated:				
Buildings and building improvements	24,010,741	460,989		24,471,730
Infrastructure and Infrastructure improvements	24,582,926	1,144,936		25,727,862
Equipments	3,662,606	378,706	(124,675)	3,916,637
Furnishing	970,474	354,577	(15,103)	1,309,948
Computers	662,667	29,389	(40,324)	651,732
Works of art	6,787			6,787
Vehicles	<u>5,743,572</u>	<u>101,649</u>	<u>(24,225)</u>	<u>5,820,996</u>
Total capital assets being depreciated	<u>59,639,773</u>	<u>2,470,246</u>	<u>(204,327)</u>	<u>61,905,692</u>
Less accumulated depreciation for:				
Buildings and building improvements	(6,207,378)	(621,298)		(6,828,676)
Infrastructure and Infrastructure improvements	(9,025,527)	(626,967)		(9,652,494)
Equipments	(2,796,452)	(313,747)	124,334	(2,985,865)
Furnishing	(668,894)	(129,500)	14,964	(783,430)
Computers	(459,548)	(108,875)	39,197	(529,226)
Works of art	(1,141)	(660)		(1,801)
Vehicles	<u>(5,128,695)</u>	<u>(259,247)</u>	<u>24,225</u>	<u>(5,363,717)</u>
Total accumulated depreciation	<u>(24,287,635)</u>	<u>(2,060,294)</u>	<u>202,720</u>	<u>(26,145,209)</u>
Total capital assets being depreciated, net	<u>35,352,138</u>	<u>409,952</u>	<u>(1,607)</u>	<u>35,760,483</u>
Governmental activities capital assets, net	<u>\$ 63,616,645</u>	<u>\$ 3,070,813</u>	<u>\$ (1,607)</u>	<u>\$ 66,685,851</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

5. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 528,505
Public safety	165,288
Public works	967,609
Health and welfare	34,670
Culture and recreation	141,352
Community development	<u>222,870</u>
Total depreciation expense-governmental activities	<u>\$ 2,060,294</u>

<u>Business - type activities</u>	<u>Balance July 1, 2008 as restated</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2009</u>
Capital asset, not being depreciated:				
Land	\$ 600,000	\$ -	\$ -	\$ 600,000
Total capital assets not being depreciated	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>
Capital assets, being depreciated:				
Building	6,669,838	-	-	6,669,838
Machinery and equipment	-	180,000	-	180,000
Total capital assets being depreciated	<u>6,669,838</u>	<u>180,000</u>	<u>-</u>	<u>6,849,838</u>
Less accumulated depreciation for:				
Building	(219,225)	(167,507)	-	(386,732)
Machinery and equipment	-	-	-	-
Total accumulated depreciation	<u>(219,225)</u>	<u>(167,507)</u>	<u>-</u>	<u>(386,732)</u>
Total capital assets being depreciated, net	<u>6,450,613</u>	<u>12,493</u>	<u>-</u>	<u>6,463,106</u>
Business - type Activities capital assets, net	<u>\$ 7,050,613</u>	<u>\$ 12,493</u>	<u>\$ -</u>	<u>\$ 7,063,106</u>

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

<u>Business -type Activities</u>	
Community development	\$ 167,507
Total depreciation expense-governmental activities	<u>\$ 167,507</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. PROPERTY TAXES

The personal property tax is self assessed by the taxpayer on a return which is to be filed by May 15 of each year with the 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 based on the initial estimated collections, as modified by the quarterly revisions of estimates required law. The CRIM is required by law to prepare a liquidation 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 preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Independent Auditors. 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.

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

6. PROPERTY TAXES (CONTINUED)

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 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

7. MUNICIPAL SALES AND USE TAX

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 (.1%), the Municipal Redemption Fund (.3%) and the Municipal Improvements Fund (.1%) with the remaining 0.5%. The Municipality collected \$ 1,676,545 during the year ended June 30, 2009.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 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	\$ 823,858	\$ 211,288	\$ 1,109,772	\$ 183,720	\$ 2,328,638
Accrued liabilities	<u>76,518</u>	<u>10,237</u>	<u>2,162</u>	<u>37,199</u>	<u>126,116</u>
Total	<u>\$ 900,376</u>	<u>\$ 221,525</u>	<u>\$ 1,111,934</u>	<u>\$ 220,919</u>	<u>\$ 2,454,754</u>

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	\$ 1,112
Retirement System Administration	265,408
Puerto Rico Telephone Company	7,753
Puerto Rico Aqueduct and Sewer Authority	9,546
Commonwealth of Puerto Rico - Treasury Department	21,374
Department of Labor-Unemployment Program	10,124
Commonwealth of Puerto Rico Employee Association	<u>25,186</u>
Total	<u>\$ 340,503</u>

10. DEFERRED REVENUES

A. Municipal License Tax- The deferred revenues of \$7,318,164 in the general fund relates to municipal license tax collected in fiscal year 2008-09 that will be earned in fiscal year 2009-10.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

10. DEFERRED REVENUES (CONTINUED)

B. Federal Grants- The deferred revenues presented in 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	\$ <u>111,954</u>
Total	\$ <u>111,954</u>

11. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009, 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	\$ 20,530,000	\$ -	\$ (690,000)	\$ 19,840,000	\$ 740,000
Notes Payable	11,385,000		(450,000)	10,935,000	540,000
State Insurance Fund Corporation	211,016		(211,016)		
LIMS Repayment Plan	301,836	41,030	(104,167)	238,699	104,167
Property Taxes Debt		310,532		310,532	
Compensated Absences	3,456,299		(384,620)	3,071,679	450,000
Landfill Obligation	<u>812,000</u>	<u>-</u>	<u>(47,000)</u>	<u>765,000</u>	<u>47,000</u>
Total	<u>\$36,696,151</u>	<u>\$ 351,562</u>	<u>\$(1,886,803)</u>	<u>\$35,160,910</u>	<u>\$1,881,167</u>

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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

- 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, 2009 are as follows:

Type of bonds	Maturity Date	Original Amount	Range of Interest Rates	Balance at June 30, 2009
1995 Series	7-1-21	\$ 605,000	4.86% to 6.75%	\$ 450,000
1999 Series	7-1-24	260,000	2.70% to 7.81%	215,000
1999 Series	7-1-24	710,000	2.80% to 7.81%	590,000
2000 Series	7-1-25	6,440,000	2.70% to 7.81%	5,500,000
2002 Series	7-1-21	1,335,000	5.0% to 6.5%	1,050,000
2002 Series	7-1-26	580,000	5.0% to 6.5%	500,000
2004 Series	7-1-29	4,020,000	5.00%	3,630,000
2004 Series	7-1-14	905,000	5.00%	510,000
2005 Series	7-1-29	435,000	4.30% to 5.0%	395,000
2005 Series	7-1-21	730,000	4.30% to 5.0%	645,000
2006 Series	7-1-31	5,050,000	6.62% to 7.25%	4,885,000
2008 Series	7-1-17	1,580,000	5.00%	1,470,000
Total general obligation bonds				\$ 19,840,000

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:

Year Ending June 30,	Principal	Interest
2010	\$ 740,000	\$ 996,263
2011	795,000	1,098,527
2012	850,000	1,052,013
2013	910,000	1,002,037
2014	965,000	948,613
2015-2019	5,030,000	3,881,091
2020-2024	5,275,000	2,378,152
2025-2029	4,100,000	927,928
2030-2034	1,175,000	124,828
Total	\$ 19,840,000	\$ 12,409,452

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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:

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2009
2003 General obligations notes	7-1-10	\$ 725,000	5.0% to 6.0%	\$ 240,000
2006 General obligations notes	7-1-13	545,000	6.62% to 7.25%	415,000
2004-A Series- Section 108 Loan	8-1-22	5,100,000	Variable	4,675,000
2006-A Series- Section 108 Loan	8-1-24	1,895,000	Variable	1,795,000
2007 General obligations notes	7-1-14	270,000	3.93% to 7.50%	240,000
2007 General obligations notes	7-1-14	445,000	3.93% to 7.50%	400,000
2008 Special obligation note	7-1-32	3,170,000	7.50%	3,170,000
Total notes payable				\$ 10,935,000

These notes are payable from special ad valorem property tax of 1.75% and the Municipal sales and use tax of (.030%) which are restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Section 108 is payable from Special Revenue Fund - Federal Grant funds. The Series 2008, amounting \$3,170,000, is payable with the revenues generated from the collection of the .3% of the municipal sales and use tax imposed by the Municipality and collected by the Puerto Rico Treasury Department.

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

Year Ending June 30,	Principal	Interest
2010	\$ 540,000	\$ 512,814
2011	600,000	628,952
2012	596,000	594,484
2013	636,000	557,940
2014	681,000	518,494
2015-2019	2,910,000	2,072,422
2020-2024	3,015,000	1,142,815
2025-2029	992,000	537,852
2030-2034	965,000	151,688
Total	\$ 10,935,000	\$ 6,717,461

- 4. LIMS Repayment Plan-** During the fiscal year 2000-2001 the Municipality authorized the CRIM to retain the corresponding portion for the financing project of Land Information Management System- LIMS, contracted by the CRIM. A total of \$776,667 is to be retained in ten years period at an interest rate of 5.95% until November 28, 2011. At June 30, 2009, the outstanding balance is \$238,699. This amount is presented in the government-wide financial statement.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

11. LONG-TERM LIABILITIES (CONTINUED)

5. **Property Taxes Debts-** These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM) at June 30, 2009. The CRIM issued a settlement noting that the advances exceeded collections by \$310,532. In the government-wide financial statements, the entire amount has been recognized as long term debt.
6. **Compensated Absences-** The government-wide statement of net assets includes approximately \$1,815,000 of accrued sick leave benefits, and approximately \$1,256,000 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
7. **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 \$ 765,000 as the Municipality's estimated current cost for landfill post-closure costs as of June 30, 2009. 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

12. PENSION PLAN (CONTINUED)

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 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, 2009 amounted to approximately **\$724,000**, 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, 2009, a copy of which can be obtained from the Retirement System, Minillas Station, PO Box 42004, San Juan, PR 00940.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements that have effective dates after June 30, 2009:

- a. GASB Statement No.51, Accounting and Financial Reporting for Intangible Assets, which is effective for periods beginning after June 15, 2009.
- b. GASB Statement No.53, Accounting and Financial Reporting for Derivative Investments, which is effective for periods beginning after June 15, 2009.
- c. GASB Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions, which is effective for periods beginning after June 15, 2009, with early implementation encouraged.
- d. GASB Concepts Statement No. 5, Service Efforts and Accomplishments- an Amendment of GASB Concepts Statements No. 2. This Statement provides a framework to be used by the GASB in considering guidance for reporting SEA by state and local governmental entities and amends terminology and other information in GASB: CS-2

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

15. 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, 2009, 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

16. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following restatements have been made in the governmental fund financial statements, which are reported as an adjustment to the beginning fund balances:

Description	General Fund	Special Revenue-(02) State & Federal Grants	Capital Projects Fund-(20 & 21) State & Federal Grants	Other Governmental Funds	Total
Fund balance beginning	\$ 1,377,811	\$ 5,708,835	\$ 4,817,376	\$ 2,381,189	\$ 14,285,211
To adjust the cash balance related to GDB (fiscal agent)		(6,405)	(11,970)		(18,375)
To reclassify prior year fund balances	-	(1,590,000)	1,590,000	-	-
Fund balance, beginning as restated	\$ 1,377,811	\$ 4,112,430	\$ 6,395,406	\$ 2,381,189	\$ 14,266,836

B. GOVERNMENTAL-WIDE FINANCIAL STATEMENTS

The following restatements have been made in the governmental-wide financial statements, which are reported as an adjustment to beginning net assets:

<u>Description</u>	<u>Total</u>
Net assets, beginning	\$ 47,958,298
To adjust the cash balance related to GDB (fiscal agent)	(18,375)
To restate Proprietary Fund-Enterprise Fund	377,282
To adjust prior year fund balances	(33,013)
Net assets, beginning as restated	\$ 48,284,192

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

17. SUBSEQUENT EVENTS

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA, is an economic stimulus package endorsed by the President of the United States of America and approved by Congress. Its immediate goals include the creation of new jobs as well as save existing ones, preserve the economic activity, invest in long-term economic growth, and promote a high level of accountability and transparency in government spending.

Puerto Rico is part of the American territories that will benefit from the stimulus package of ARRA, and will receive approximately \$5,600 millions in grants and is eligible to obtain additional funding through other competitive federal programs.

As part of this plan, the Municipality of Cidra will benefit from federal grants to improve its services to its constituents and from the economic activity generated within its territory due to projects funded by ARRA. As of October 2009, a project through the Homeless Prevention and Rapid Rehousing Program for \$561,345 was initiated. The Municipality expects additional projects and funding to be awarded and expended in the following fiscal year 2009-2010.

On March 9, 2009, the Legislature of the Commonwealth of Puerto Rico approved Law No. 9 known as "Ley del Plan de Estímulo Económico Criollo" which makes feasible the Investment on Our Infrastructure Plan (PINI) to benefit the municipalities of Puerto Rico. The objectives of the Plan are to: 1) provide an immediate stimulus to the economy through funding of infrastructure projects islandwide; and 2) speed-up priority infrastructure projects in all municipalities of Puerto Rico.

The amount assigned to the Municipality of Cidra amounts to \$1,578,947 for the first phase of the (PINI) Plan. In the first phase, the municipalities can use the funds for the following: 1) funding of essential infrastructure, and 2) those municipalities with deficit, that fall within the Governmental Development Bank (BGF) criteria for assigning those funds, can use those them to partially or fully liquidate existing debts with governmental agencies. The Municipality assigned the totally funds \$1,578,947 for infrastructure projects.

On August 11, 2009, the Municipal Legislature approved the issuance of a special obligation note for the amount of \$1,980,000 for administrative expenses.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amount</u>		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 4,573,928	\$ 4,573,928	\$ 4,634,599	\$ 60,671
Municipal license tax	10,561,079	10,561,079	9,890,489	(670,590)
Fines and forfeiture	20,000	20,000	126,528	106,528
Licenses, permits and other local taxes	930,000	930,000	1,040,592	110,592
Charges for services	30,000	30,000	16,687	(13,133)
Intergovernmental	4,278,206	4,278,206	4,371,684	93,478
Interest	600,000	600,000	484,601	(115,399)
Rent of property	7,800	7,800	3,150	(4,650)
Miscellaneous	<u>440,000</u>	<u>440,000</u>	<u>620,244</u>	<u>180,244</u>
Total revenues	<u>21,441,013</u>	<u>21,441,013</u>	<u>21,188,754</u>	<u>(252,259)</u>
Budget carryover (1)	<u>-</u>	<u>1,119,326</u>	<u>1,119,326</u>	<u>-</u>
Total revenues after carryover	<u>21,441,013</u>	<u>22,560,339</u>	<u>22,308,080</u>	<u>(252,259)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	11,800,442	12,413,868	12,320,885	92,983
Public safety	1,754,435	1,742,021	1,731,314	10,707
Public works	4,385,997	4,519,418	4,445,208	74,210
Health and welfare	1,806,016	1,791,088	1,720,908	70,180
Culture and recreation	1,272,272	1,163,797	965,042	198,755
Economic development	421,851	368,864	251,836	117,028
Operating transfer to other funds	<u>-</u>	<u>561,283</u>	<u>561,283</u>	<u>-</u>
Total expenditures, encumbrances and other financing uses	<u>\$ 21,441,013</u>	<u>\$ 22,560,339</u>	<u>21,996,476</u>	<u>563,863</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)			<u>\$ 311,604</u>	<u>\$ 311,604</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule				\$ 22,308,080
Differences-budget to GAAP:				
Budget Carryover				<u>(1,119,326)</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 21,188,754</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule				\$ 21,996,476
Differences-budget to GAAP:				
Non-budgeted expenditures				268,267
Prior year encumbrances recorded as current year expenditures for GAAP basis				258,485
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(107,086)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 22,416,142</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, 2009

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 USGAAP, 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 USGAAP 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, 2009 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2009.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

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:			
Section 523 Mutual Self-help Housing Grants	10.420		\$ 2,794
Total U.S. Department of Agriculture			2,794
U.S. DEPARTMENT OF COMMERCE:			
Direct Programs:			
Grants for Public Works and Economic Development	11.300		3,680
Total U.S. Department of Commerce			3,680
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Housing Assistance Council Community Development Block Grants/Entitlement Grants	14.169		2,304
Section 8 Housing Choice Vouchers	14.218		1,546,514
Section 8 Housing Choice Vouchers	14.871		1,202,742
Pass-through Commonwealth of Puerto Rico Department of the Family:			
Emergency Shelter Grants Program	14.231	ESG-04-DC- 720001	48,929
Total U.S. Department of Housing and Urban Development:			2,800,489

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Program:			
Federal Transit: Formula Grants	20.507	Not Available	67,796
Pass-through the Commonwealth of Puerto Rico - Traffic Safety Commission			
State and Community Highway Safety Pass-through Commonwealth of Puerto Rico Department Highway Safety and Drunk:	20.600	Not Available	16,631
Driving Prevention Incentive Grant	20.601	06-03-08	<u>31,653</u>
Total U.S. Department of Transportation			<u>116,080</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Homeland Security Grant	96.067	2005-GFT54009	<u>162,638</u>
Total U.S. Department of Homeland Security			<u>162,638</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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>292,475</u>
Total U.S. Department of Health and Human Services			<u>292,475</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,378,156</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, 2009

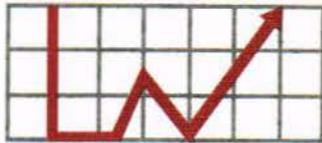
1. BASIS OF PRESENTATION:

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) 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>Other Governmental Funds</u>	<u>Total</u>
Per Schedule of Expenditures of Federal Awards	\$ 556,006	\$ 2,822,150	\$ 3,378,156
Non federal programs expenditures	<u>3,322,709</u>	<u>1,711,733</u>	<u>5,034,442</u>
Total expenditures in the basic financial statements	<u>\$ 3,878,715</u>	<u>\$ 4,533,883</u>	<u>\$ 8,412,598</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, 2009, which collectively comprise the **Municipality's** basic financial statements and have issued our report thereon dated December 18, 2009, 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.

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)

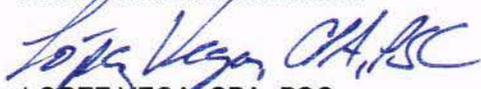
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any 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 December 18, 2009.

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

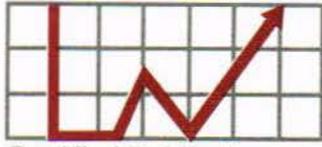
San Juan, Puerto Rico
December 18, 2009

Stamp No. 2407051 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, 2009. 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, 2009. 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, **09-01** through **09-03**.

**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, **09-01** through **09-03** 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.



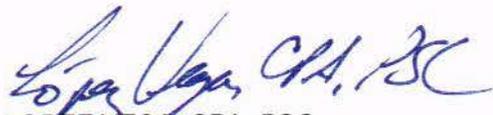
López-Vega, CPA, PSC

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 January 28, 2010.

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
January 28, 2010

Stamp No. 2407075 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

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 X
Significant deficiencies identified not considered to be material weaknesses?	Yes	None reported X
Noncompliance material to financial statements noted?	Yes	No X

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	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 X	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	No X

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

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, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-01
Program	Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development
Requirement	Davis-Bacon Act
Statement of Condition	<p>During our Davis-Bacon Act test, we verified three (3) construction projects; we found the following exceptions:</p> <ul style="list-style-type: none">a) In one (1) case, the contractor was not informed in the procurement process of the requirements for Davis Bacon Act.b) In one (1) case, the contract did not have the provision for compliance with Davis Bacon Act.c) In two (2) cases, the payrolls were not monitored for compliance with prevailing wage rate neither signed by the program's inspector.d) In one (1) case, the file has no evidence of on-site visits performed by the program's inspector.e) In one (1) construction project, the contractor did not submit, timely, all the required weekly payrolls.
Criteria	Davis-Bacon Act, as amended DOL (40 USC 276 a to 276 a-7)
Cause of Condition	The Municipality's controls and procedures failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.
Effect of Condition	The Municipality is not in compliance with Davis-Bacon Act, as amended DOL (40 USC 276a to 276a-7).
Recommendation	<p>We recommend Management to follow monitoring system procedures developed, including the following:</p> <ul style="list-style-type: none">a) Informing contractors in the procurement process and prior to contractual agreement signature about the applicability to submit all the required weekly payrolls.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-01 (Continued)**

- b) Obtaining contractor's and subcontractor's weekly payrolls to be reviewed on a weekly basis to establish the degree of compliance and the nature and extend of violations, if any, and then, communicate contractors promptly about any failure in the payroll process.
- c) We recommend that the Municipality should strengthen its procedures in order to assure that all project files contain the compliance requirement documents.

Questioned Costs None

Management Response
and Corrective Action

The Municipality's Management concurs with the finding. The Federal Director will establish communication with the program staff in order to strengthen its monitoring system procedures related to compliance with Davis-Bacon Act. Also, we are going to give instruction to the Municipal Secretary that in any future contract with federal funding will include the appropriate clause in compliance with Davis-Bacon Act.

Implementation Date: April 1, 2010

Responsible Person: Linda Robert
Federal Program Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-02
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 three (3) construction contracts formalized during the fiscal year 2008-2009, we noted following exceptions:</p> <ul style="list-style-type: none">a. One (1) contract did not include provisions compliance with Davis Bacon Act;b. Three (3) contracts did not include provision compliance with Energy Policy and Conservation Act;c. One (1) contract did not include a provision for compliance with the Copeland “Anti-kickback”;d. One (1) contract did not include a provision for compliance with ‘Equal Employment Opportunity”;e. One (1) contract did not include a provision for compliance with the Sections 103 and 107 of the Contract Work Hours and Safety Standards Act;f. One (1) contract did not include a provision for retention of all required records for three (3) years;g. One (1) contract did not include a provision for compliance with “Clean Air Act and Water Act;h. One (1) contract did not include a provision for granting access to GAO or other federal agency to books, documents, etc.
Criteria	<p>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.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **09-02 (Continued)**

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 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 OMB Common Rules, Subpart I, Section 36 (b).

Implementation Date: April 1, 2010

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, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-03
Program	Section 8 Housing Choice Vouchers Program (CFDA 14.871); U.S. Department of Housing and Urban Development
Requirement	Eligibility Test
Statement of Condition	<p>We performed an eligibility test and examined a sample of fifteen (15) participant files. The following summarize the deficiencies found:</p> <ul style="list-style-type: none">a) One (1) participant admitted during fiscal year 2008-2009 was not found on the Waiting List.b) In two (2) of the files, the reasonable rent determination were not updated.c) Three (3) Inspection Checklist form were not marked as Pass, Fail or Inconclusive.d) In four (4) cases, the staff program used the incorrect Payment Standard.e) In one (1) file the PHA failed to document whether deficiencies found in the last inspection were corrected.
Criteria	<p>Code of Federal Regulations 24, Sections 2.212, 5.230, and 5.601 through 5.617 states that as a condition of admission or continued occupancy, it requires the tenant and other family members to provide necessary information, documentation. Also the PHA must comply in use the correct payment standard. In addition, Code of Federal Regulations 24, Sections 982.54 (d) (15), 982.158 (f) (7) and 982.507 states that the PHA must update the reasonable rent at the time of the initial leasing and before any increase in the rent to the owner and all the times during the assisted tenancy, the rent to owner may not exceed the reasonable rent as most recently determined or re-determined by the PHA. The PHA administrative plan states that, must be selected from the PHA waiting list. The PHA must select participant from the waiting list on a first-come, first-served basis, in accordance with this same plan, which includes equal opportunity.</p>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	09-03 (Continued)
Cause of Condition	The Municipality did not comply with internal control procedures required by federal agencies.
Effect of Condition	The Municipality is not in compliance with Code of Federal Regulations 24, Sections 2.212, 5.230, and 5.601 through 5.617.
Recommendation	We recommend the Program to establish the following procedures: <ul style="list-style-type: none">a. Internal control is implemented, will be improved.b. Corroborate the payment standard for the family is correct and agree with the Family Report.c. All participants' files must have forms (reasonable rent) updated.
Questioned Costs	None
Management Response	The Municipality's management concurs with the finding. During this fiscal year 2009-2010, we gave instructions to the program staff to correct the situations commented in the finding. Implementation Date: April 1, 2010 Responsible Person: Linda Robert Federal Program Department Director

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
08-01	14.218	<p><u>We realized Earmarking Test for Community Development Block Grant/Entitlement Program and after our procedures we found that the Municipality has not comply with the seventy percent (70%) of the funds that must be used over a period of up to three years for activities that benefit low - and moderate - income persons.</u></p> <p>The finding was re-evaluated. The problem was in financial reporting, not in compliance-Earmarking.</p> <p>Full corrective action has been taken.</p>
08-02	14.218	<p><u>HUD-60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons, (OMB No. 2529-0043) was not submitted for the fiscal year ended June 30, 2008.</u></p> <p>This finding was corrected substantially; the few instances for corrective action were included in the Management Letter.</p>
08-03	14.218	<p><u>We realized Earmarking Test for Community Development Block Grant/Entitlement Program and after our procedures we found the following exceptions: (a) The Department's management does not maintain project files (Environmental Review Record) to compile information about their compliance with the environmental review responsibility. (b) For the projects where the environmental review was not performed, a written determination, consistent 24 CFR Part 58.34 and 58.35 (b), was not made by the Department (Establishing that the environmental review was not required).</u></p> <p>Full corrective action has been taken.</p>
07-01	14.218	<p><u>During our contract provision test, we verified contracts formalized during the fiscal year 2006-2007. The following summarize the situations found: One (1) contracts did not include provisions compliance with Davis Bacon Act; Four (4) contract did not include provision for granting access to GAO or other Federal Agency, to books, documents, etc; Four (4) contracts did not include a provision for compliance with the Copeland "Anti-kickback";</u></p> <p>No corrective action was taken. See current year finding number 09-02</p>
07-02	14.871	<p><u>We realized Cash Management Test for Section 8 Housing Choice Voucher Program and after our procedures; we found that the Municipality</u></p>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIDRA**

SUMMARY SCHEDULE OF PRIOR YEARS AUDIT FINDINGS (CONTINUED)

YEAR ENDED JUNE 30, 2009

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>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.</u></p> <p>Full corrective action has been taken.</p>
06-01	14.871	<p><u>We performed a housekeeper activities test of ten (10) participant's files and found the following exceptions:a)In nine (9) participant's files, we did not find evidence that demonstrate if the program staff visited at least two times per month the participant housing unit to ensure the quality of services. In one (1) of these cases, only three (3) visits were found for a period of six months;(b)In three (3) participant's files, the health certificates were expired;(c)In one (1) participant's files, there was no evidence of the approval form or refuse form (MACSH-FM-005-A or MAC-SH-FM-005B);(d)In one (1) participant's files, there was no evidence of the evaluation of housekeeper performance. Form (MAC-SH-FM-007).In addition, the program did not contemplate in the agreement; between participant and housekeeper the tasks that will realize the housekeeper.</u></p> <p>Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.</p>
06-02	14.871	<p><u>We realized Cash Management Test for Section 8 Housing Choice Voucher Program and after our procedures, we found that the Municipality maintained during the current fiscal year average cash balance in books of approximately \$208,317.69. At June 30, 2006, the cash balance in books was \$218,434.33. In addition, we could not exam which is the operating reserve, the overpayment due to HUD or remaining balance because the program did not maintain accounting records to determine that same one.</u></p> <p>Audit finding is no longer valid since has passed more than two (2) years since the reports were submitted to Single Audit Clearinghouse. The Federal Agency who delegated the funds to the Municipality is not giving follow-up to the finding and has not issued a final decision respect to the finding.</p>